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REPORT ON THE TECHNICAL PAPER ON THE GOODS AND SERVICES TAX



**The Standing Committee on
Finance**

November 1989

(reprint – January 1990)



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REPORT ON THE TECHNICAL PAPER ON THE GOODS AND SERVICES TAX

The Standing Committee on Finance

November 1989



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HOUSE OF COMMONS

Issue No. 85

Tuesday, June 27, 1989
Tuesday, August 15, 1989
Wednesday, September 20, 1989
Monday, October 30, 1989
Thursday, November 2, 1989
Monday, November 6, 1989
Tuesday, November 7, 1989
Wednesday, November 8, 1989
Thursday, November 9, 1989
Monday, November 20, 1989
Tuesday, November 21, 1989

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 85

Le mardi 27 juin 1989
Le mardi 15 août 1989
Le mercredi 20 septembre 1989
Le lundi 30 octobre 1989
Le jeudi 2 novembre 1989
Le lundi 6 novembre 1989
Le mardi 7 novembre 1989
Le mercredi 8 novembre 1989
Le jeudi 9 novembre 1989
Le lundi 20 novembre 1989
Le mardi 21 novembre 1989

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance

*Procès-verbaux et témoignages du Comité
permanent des*

Finances

RESPECTING:

Pursuant to Standing Order 108(2), consideration of
the Technical Paper on the Goods & Services Tax

INCLUDING:

The Second Report to the House

CONCERNANT:

Conformément à l'article 108(2) du Règlement,
étude du document technique relatif à la taxe sur les
produits et services

Y COMPRIS:

Le Deuxième Rapport à la Chambre

Second Session of the Thirty-fourth Parliament,
1989

Deuxième session de la trente-quatrième législature,
1989

STANDING COMMITTEE ON FINANCE

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Diane Marleau
Audrey McLaughlin
Lorne Nystrom
Jerry Pickard
Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Marie Carrière

Clerk of the Committee

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(Quorum 8)

Le greffier du comité

Marie Carrière

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ORDER OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons on Thursday, September 28, 1989

By unanimous consent, it was ordered,—That the House hereby directs the following arrangements with respect to the consideration, by the Standing Committee on Finance, of the proposed Goods and Services Tax:

That the Committee be authorized to travel as follows:

a) A sub-committee of the said committee, composed of one Member from each recognized Party in the House, to travel to Whitehorse for hearings on September 30, 1989;

b) The full committee to travel for hearings in Vancouver (October 2 and 3), in Edmonton (October 4), in Regina (October 5), in Winnipeg (October 6), in St. John's (October 18), in Halifax (also on October 18), in Charlottetown (October 19), and Fredericton (also on October 19).

2. That the Committee make its report to the House no later than Tuesday, November 28, 1989.

3. That televised broadcasting of any or all public meetings of the Committee in Ottawa, subsequent to the adoption of this Order and until the Committee enters into preparing its report, be on the basis of the principles and practices now governing broadcast of the proceedings of the House of Commons.

4. That the Order for consideration by the House of second reading and committee referral of any Bill or Bills relating to the proposed Goods and Services Tax be for "Second Reading and referral to the Standing Committee on Finance."

5. That the Committee be authorized to travel to Mont Ste Marie, Quebec, from November 6 to November 9, 1989, inclusive for the purpose of drafting the report.

ATTEST

ROBERT MARLEAU

The Clerk of the House of Commons

ORDER OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons on Tuesday, October 24, 1989

By unanimous consent, it was ordered,—That, a sub-committee of the Standing Committee on Finance composed of one member from each recognized party in the House, be authorized to travel to Yellowknife (Northwest Territories) on Thursday, October 26, 1989, for the purpose of hearing witnesses on the Committee's consideration of the Goods and Services Tax; and that, the necessary staff do accompany the Committee.

ATTEST

ROBERT MARLEAU

The Clerk of the House of Commons

The Standing Committee on Finance

has the honour to present its

SECOND REPORT

In accordance with its mandate under Standing Order 108(2), your Committee has examined the Technical Paper on the Goods and Services Tax issued by the Minister of Finance on Tuesday, August 8, 1989 and agreed to report the following:

TABLE OF CONTENTS

Acknowledgement	xiii
List of Resolutions and Recommendations	1

PART A – APPROACHES TO SALES TAX REFORM

1. The Need for Sales Tax Reform	15
A) Narrow Base	16
B) Wide Variation in Effective Tax Rates	16
C) Taxation of Business Inputs	17
D) Unreliable Source of Revenue	18
2. Alternatives to the Existing Federal Sales Tax	19
A) Income vs. Consumption Taxes	19
B) RST vs. VAT	22
3. Administrative Issues	25
A) A National Sales Tax	25
B) A Joint Agency to Collect Sales Tax	29
C) The “Tax on Tax” Issue	30

PART B – ECONOMIC AND DISTRIBUTION ASPECTS

1. Economic Aspects	37
A) Fiscal Impact	37
B) Price Effects	38
C) Effect on Employment and Growth	40
2. Alternative GST Option	45
A) Price Impact	45
B) Fiscal Implications	49
C) Lower Adjustment Costs	50
3. GST Credits	53
A) The Single Person’s Credit	53
B) Income Thresholds	54
C) Indexation	55
D) Credit Benefits	56

PART C – THE DESIGN OF THE GST

1. Overview of the GST	69
2. Basic Operation	71
A) General	71

B) Timing	71
C) Filing Requirements	72
D) GST Terminology	72
(i) <i>Persons</i>	72
(ii) <i>Commercial Activity</i>	72
(iii) <i>Goods</i>	73
(iv) <i>Property</i>	73
(v) <i>Real Property</i>	73
(vi) <i>Personal Property</i>	73
(vii) <i>Services</i>	73
(viii) <i>Supply</i>	73
(ix) <i>Supply Made in Canada</i>	73
(x) <i>Taxable Supply</i>	74
(xi) <i>Exempt Supply</i>	74
(xii) <i>Zero-Rated Supply</i>	74
(xiii) <i>Input Tax Credit</i>	74
(xiv) <i>Registered Vendor</i>	74
(xv) <i>Value of the Consideration for a Supply</i>	75
(xvi) <i>Exports</i>	75
(xvii) <i>Imports</i>	75
(xviii) <i>Exempt Suppliers</i>	75
(xix) <i>Wages and Salaries</i>	75
E) Input Tax Credits	76
(i) <i>Technical Paper Proposals</i>	76
(ii) <i>Witnesses' Representations</i>	79
(iii) <i>Committee's Conclusions and Recommendations</i>	79
1. Entitlement and Apportionment	79
2. Restrictions on Credits	80
3. Provincial Sales Tax Complications	81
F) Documentation Requirements	82
(i) <i>Technical Paper Proposals</i>	82
(ii) <i>Witnesses' Representations</i>	83
(iii) <i>Committee's Conclusions and Recommendations</i>	83
1. Identification of Credit Amount	83
2. Optional Pricing	84
G) Direct Mail Imports	85
H) Operational Aspects	85
(i) <i>Technical Paper Proposals</i>	86
(ii) <i>Witnesses' Representations</i>	86
(iii) <i>Committee's Conclusions and Recommendations</i>	87
1. Filing Requirements	87
2. Cashflow	88
3. Group Filing	89

3. Defining the Tax Base	91
A) Zero-Rated Supplies	91
(i) <i>Basic Groceries</i>	91
(ii) <i>Exempt Meal Plans Provided by Universities and Colleges</i>	95
(iii) <i>Agricultural and Fish Products</i>	95
(iv) <i>Prescription Drugs</i>	96
(v) <i>Medical Devices</i>	96
B) Tax Exempt Supplies	97
(i) <i>Institutional Health Care</i>	97
(ii) <i>Health Care Practitioners</i>	97
(iii) <i>Educational Services</i>	98
(iv) <i>Day Care</i>	100
(v) <i>Legal Aid</i>	101
4. The GST and Small Business	103
A) Technical Paper Proposals	103
B) Witnesses' Representations	104
C) Committee's Conclusions and Recommendations	106
(i) <i>Small Business Fee</i>	106
(ii) <i>Small Traders Threshold</i>	106
(iii) <i>Streamlined Accounting Procedures</i>	107
5. The GST and the Consumer	113
6. Transportation and Travel	115
A) Tourism	115
B) Passenger Transportation Services	117
C) Freight Transportation Services	119
D) Excise Tax on Fuel	121
7. Real Property	123
A) Conceptual Framework	123
(i) <i>The Tax Should Not Distort The Housing Markets</i>	125
(ii) <i>The Tax Should Treat Home Owners and Residential Tenants Equally</i>	125
(iii) <i>The Tax should Be Consistent Between Acquisitions and Sales of Similar Properties</i>	125
(iv) <i>Competing Resources Should Bear Comparable Tax Burdens</i>	127
(v) <i>The Application of the Tax Should Be Clear and Simple</i>	127
B) Technical Paper Proposals	127
1. Land	127
(i) <i>Technical Paper Proposals</i>	127
(ii) <i>Representations Received by the Committee</i>	127
(iii) <i>Views of the Committee</i>	130

2.	New Residential Housing	131
(i)	<i>Technical Paper Proposals</i>	131
(ii)	<i>Representations Received by the Committee</i>	131
(iii)	<i>Views of the Committee</i>	133
3.	Existing Residential Housing	135
(i)	<i>Technical Paper Proposals</i>	135
(ii)	<i>Representations Received by the Committee</i>	136
4.	Other Personal-Use Properties of Individuals	138
(i)	<i>Technical Paper Proposals</i>	138
(ii)	<i>Representations to the Committee</i>	138
(iii)	<i>Views of the Committee</i>	138
5.	Rental Buildings	139
(i)	<i>Technical Paper Proposals</i>	139
(ii)	<i>Representations Received by the Committee</i>	139
(iii)	<i>Views of the Committee</i>	141
6.	Commercial Real Properties	143
(i)	<i>Technical Paper Proposals</i>	143
(ii)	<i>Representations Received by the Committee</i>	143
(iii)	<i>Views of the Committee</i>	143
7.	Renovations	144
(i)	<i>Technical Paper Proposals</i>	144
(ii)	<i>Representations Received by the Committee</i>	144
(iii)	<i>Views of the Committee</i>	145
C)	Calculation of Tax	127
1.	Tax Rate	146
2.	Tax Base	148
(i)	<i>Elements of the Tax Base</i>	148
(ii)	<i>Calculation of Tax Base</i>	149
	Appendix A: Taxation of Real Property Transactions	153
	Appendix B: Supplementary Information on Trade-up Approach	157
	Appendix C: Table	163
8.	Charities and Non-Profit Organizations	165
A)	Technical Paper Proposals	165
(i)	<i>General Impact of GST</i>	166
(ii)	<i>Policy Options</i>	168
(iii)	<i>The Question of Zero-Rating</i>	169
(iv)	<i>The Level of Rebate</i>	171
(v)	<i>Eligibility for Rebate</i>	172
(vi)	<i>Interest on Overdue Rebates</i>	173
(vii)	<i>Commercial Supplies</i>	174
(viii)	<i>Is an Exemption Justified?</i>	178
(ix)	<i>Reducing the Administrative Burden</i>	179

B)	“Non-Profit Status”	181
C)	The Volunteer Exemption	182
D)	Service Clubs	184
E)	Membership Fees	185
F)	Below Cost Supplies	185
G)	Self-Supply	186
H)	Recreation and Sports	188
	(i) <i>GST and Recreation</i>	188
	(ii) <i>GST and Sports</i>	189
	(iii) <i>Umbrella Groups</i>	193
I)	The Arts	193
	(i) <i>General Treatment</i>	195
	(ii) <i>Administering GST in the Arts</i>	200
9.	The Public Sector	203
A)	Technical Paper Proposals	203
B)	Rebate or Exemption	204
C)	Number of Rates	209
D)	Administrative Problems	210
10.	Indians and Indian Bands	217
11.	Financial Services	219
A)	Exempt Treatment of Financial Services	219
	(i) <i>Why Exempt Financial Services</i>	219
	(ii) <i>The “Margin” Tax Proposal</i>	220
B)	Definition of “Financial Services”	220
	(i) <i>Property and Casualty Insurance</i>	221
	(ii) <i>Gold, Platinum and Silver Coins</i>	222
C)	Definition of “Financial Institutions”	223
D)	Allocation Rules for Input Tax Credit Entitlement	225
E)	Group Relief for Inter-Company Transactions	227
F)	Relief for Transactions Between Credit Unions and Between <i>Caisses Populaires</i>	228
G)	Self-Supply Bias	228
H)	Transitional Rules	229
	(i) <i>Supplies of Financial Services</i>	229
	(ii) <i>Supplies Under Lease Contracts With Financial Institutions</i>	230
12.	Transition	231
A)	Technical Paper Proposals	231
B)	Witnesses’ Representations	232
C)	Committee’s Conclusions and Recommendations	236

1.	Capital Goods	236
2.	Inventory of Goods	238
3.	Real Property	238
	(i) <i>Residential Property</i>	239
	(ii) <i>Commercial Properties</i>	241
4.	Leases	241
13.	Other Operational Aspects of the GST	243
A)	Partners and Employee Expenses	243
	(i) <i>Technical Paper Proposals</i>	243
	(ii) <i>Witnesses' Representations</i>	243
	(iii) <i>Committee's Conclusions and Recommendations</i>	244
B)	Bad Debt Relief	246
C)	Gambling, Lotteries and Pari-Mutuel Betting	246
	(i) <i>Pari-Mutuel Betting</i>	246
	(ii) <i>Provincial Lotteries</i>	247
D)	Provincial Sales Tax	248
E)	Used Goods	248
	(i) <i>Technical Paper Proposals</i>	248
	(ii) <i>Witnesses' Representations</i>	249
	(iii) <i>Committee's Conclusions and Recommendations</i>	249
	APPENDIX A	253
	APPENDIX B	307
	APPENDIX C	335
	APPENDIX D	347

ACKNOWLEDGEMENT

The Finance Committee first became involved in value-added taxes when it became apparent that the government was considering such a tax proposal in the latter part of 1986 and in early 1987. On June 17, 1987 the government produced its White Paper on Tax Reform which was separated into two parts. The first part dealt with tax reform of the income tax system and the second part dealt with tax reform of the commodity tax system proposing a value-added tax.

It was the intention of the government to create a national sales tax on a value-added tax base and the White Paper report dealt with the possibilities and the base for such a tax.

The Finance Committee completed a study on Part I of the tax reform and made its report in the fall of 1987.

After completing this report the Finance Committee did preliminary work in connection with Part II of the suggested tax reform and, in the process, travelled to New Zealand and examined the Goods and Services Tax as it exists in that country.

The Finance Committee report on the goods and services tax was tabled with the House of Commons on March 16, 1988. In that reports the Finance Committee recommended the following:

- “1. That in their discussions on sales tax reform, federal and provincial governments give consideration to the New Zealand experience. This experience indicates that the most efficient form of a value-added national sales tax is one which has a comprehensive base with as few exemptions as possible. The Committee makes no recommendations with respect to taxing such necessities as food. The Committee recommends, however, that if necessities are taxed, it should be only on condition that low and lower-middle income groups are fully and immediately compensated for the incremental burden they bear, and that such compensation is fully indexed.
2. That in its discussions with the provinces about sales tax reform and about the taxation of government operations the government give the highest priority to minimizing compliance cost for Canadian businesses collecting sales taxes.
3. That the government, given that financial transactions should not be treated exactly like other transactions, take special care in developing simple, practical rules for the application of the tax to financial transactions and institutions.
4. That, if the government proceeds with the tax, it establish a private sector advisory committee to develop practical rules for the new tax and to publicise the details of the new tax and the relevant social policy transfers.”

In the budget of February 1988, the Minister of Finance attempted to make corrections to the existing federal sales tax by, in short, dealing with the marketing problem that is tearing away at the tax base.

In accordance with the respect of the Minister, the Committee held hearings with the entire business community concerning the Minister's February 1988 budget suggestion and reported to the Minister with respect to that suggestion and advised the Minister that he would be better off to raise any additional monies he needed by increasing existing sales taxes while he proceeded as expeditiously as possible to produce for the country a national value-added tax as it was the view of the Committee that the federal sales tax could not be amended, repaired or altered in any fashion that would be workable. In early 1989 the Minister announced that the federal government would go it alone on a value-added tax. In the budget of April 27, 1989, the Minister suggested the tax would be a Goods and Services Tax at a rate of 9%. Detail of this tax was presented by the Minister in a Technical Paper on August 8, 1989 and on August 15, 1989 the Committee commenced its hearings in connection with this Technical Paper.

In its hearings, the Committee has heard 274 sets of witnesses and has analyzed at over 1,100 briefs and other representations. A list, though perhaps not complete, of briefs and representations made to the Committee is appended to this report.

In its discussions, the Committee held hearings in all provinces and territories of Canada with the exception of the provinces of Ontario and Quebec. Groups in Ontario and Quebec were requested to appear before the Committee in its many hearings in Ottawa.

The Committee completed its public hearings on October 26, 1989.

The Committee has been ably assisted by Blake Murray, Barrister and Solicitor and partner in the firm Osler, Hoskin and Harcourt in Toronto, who has acted as General Counsel in this matter. Mr. Murray had also accompanied the Committee to New Zealand in 1988 as a representative of the Canadian Bar Association.

Also acting as a Counsel to the Committee was Mr. Michel Coderre, Barrister and Solicitor with the firm Stikeman Elliott in Montreal. Mr. Coderre is a member of both the Bars of Québec and Ontario and is also a chartered accountant.

The Committee also had the assistance of Michael Cassidy, former Member of Parliament for Ottawa Centre from 1986 to 1988, a former member of the Finance Committee and now President of an Ottawa public affairs consulting firm, The Ginger Group Consultants.

The Committee also had the specialized services of Cheryl Knebel. Ms. Knebel is a chartered accountant and a senior manager of Price Waterhouse in Edmonton, Alberta. She practices in commodity taxation and international trade.

The regular research staff of the Committee was fully employed. The Director of the Research staff, Basil Zafiriou, an economist, is from the Library of Parliament and is on assignment to the Committee. Also from the Library of Parliament is Richard Domingue, an economist, who has worked for the Committee in this Parliament as well as in the last Parliament.

The Committee was further assisted by Sean Aylward, Barrister and Solicitor. Mr. Aylward holds a Master of Laws degree in tax and trade law from the London School of Economics and is a Member of the Bar of Ontario. Mr. Aylward also worked as a Counsel to the Committee during its study in 1987 on Part I of tax reform.

All of the members of this Committee, even those members from political parties who would not perhaps on their own approve of a Goods and Services Tax, worked diligently to solve the problems presented in the Technical Paper. This report reflects the mature and considered judgment of all Committee members.

From the New Democratic Party, the Committee had the assistance of Lorne Nystrom, Member of Parliament for Yorkton-Melville, Saskatchewan. Mr. Nystrom is a House of Commons veteran and is the Finance critic for the New Democratic Party. Assisting him was Jack Whittaker, Member of Parliament for Okanagan-Similkameen-Merritt, British Columbia. Mr. Whittaker was, prior to being elected, a barrister and solicitor.

From the Liberal Party, the Committee had the services of Douglas Young, Member of Parliament for Gloucester, New Brunswick. Mr. Young is the associate Finance critic for the Liberal Party. He is the former Minister of Fisheries in the New Brunswick Legislature. Assisting Mr. Young was Jerry Pickard, Member of Parliament for Essex-Kent, Ontario. Mr. Pickard is a former school teacher. Also assisting was Diane Marleau, Member of Parliament for Sudbury, Ontario who made important representations regarding child care that were accepted by the Committee. Mrs. Marleau is a former Regional Chairman for the District of Sudbury. Alfonso Gagliano, Member of Parliament for Saint-Léonard, Québec, the Liberal critic for Small Business, also assisted. Mr. Gagliano was first elected to the House of Commons in the general election in 1984.

From time to time, the Liberal Party had the services of John Manley, Member of Parliament for Ottawa South, Ontario. Mr. Manley is a lawyer and he added considerably to the Committee's deliberations.

From the Progressive Conservative Party, the Committee had the service of Murray Dorin, Member of Parliament for Edmonton Northwest, Alberta. Mr. Dorin has been a member of the Committee since 1984 and is the Committee's Vice-Chairman. Mr. Dorin is a chartered accountant with extensive business experience.

In addition, the P.C. Party had the assistance of William Attewell, Member of Parliament for Markham, Ontario. Mr. Attewell has been a member of the Committee since 1984. He is a former executive with Guaranty Trust in Toronto.

Also representing the Conservative Party was René Soetens, Member of Parliament for the riding of Ontario. Mr. Soetens is a former business executive with Co-Steel in Whitby;

Pat Sobeski, Member of Parliament for Cambridge, Ontario is a former officer with Canada Trust;

Clément Couture, Member of Parliament for Saint Jean, Quebec is a former business development officer with the City of Saint Jean;

Yvon Côté, Member of Parliament for Richmond-Wolfe, Quebec is a former teacher; and Lee Richardson, Member of Parliament for Calgary Southeast, Alberta, who has been active for a long time in political affairs is a former businessman.

Assisting the Progressive Conservatives from time to time as a substitute was Fernand Jourdenais, Member of Parliament for La Prairie, Québec. Mr. Jourdenais is a former businessman.

The Clerk of the Finance Committee, Marie Carrière, organized a very considerable work force to assist the Committee both in the preparation of the documentation and the briefs and organized all of the meetings and attendances. Ms. Carrière is certainly one of the most competent Committee Clerks in the House of Commons Committee Service, and the Finance Committee is fortunate to have her as its Clerk.

Appended to this report are minority views of both the Liberal and New Democratic Parties.

It is the Committee's view that the Committee would like to see provincial participation in the tax. During the Committee's deliberations, as Chairman I was at times able to discuss the matter with provincial treasurers. Clearly, it would be best if we could have one national sales tax; one central administration with the same tax right across the country. Unfortunately, that does not seem to be possible. In the absence of agreement, a federal only Goods and Services Tax is a viable alternative.

In this report we have dealt with as many of the issues as possible. It is the Committee's view that a Goods and Services Tax form of multi-stage sales tax is the best form of taxation to replace the existing federal sales tax and that the tax ought to be legislated in accordance with the views of the Committee as determined by the evidence before the Committee and set out in this report.

A number of people coming before the Committee and making representations to Parliamentarians have complained about the high cost of government and have demanded that government tailor its expenses to its revenue. In this regard, the enormity of the federal deficit was brought to our attention time and again.

It is the view of the Committee that effort must be made to bring revenues into line with expenditures and therefore there must be expenditure cuts and it is the Committee's view that any monies realized from the Goods and Services Tax over and above the monies required to replace the existing federal sales tax ought to be applied in reduction of the deficit and/or the public debt.

All of this is respectfully submitted.

Don Blenkarn, M.P.
Chairman

The Committee wishes to thank the following persons who have assisted in the preparation of this report

Committee Clerks

Maija Adamsons
Djénane Boulad
Carole Chafe
Richard Chevrier
Richard Dupuis
Christine Fisher
Diane Tremblay

Administrative Assistants

Hélène Cousineau
Carole Lachapelle
Diane Lefebvre

Library of Parliament

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Statistician

Secretary of State

Christiane Delon
Patricia Galbraith
Frédérique Kerr

Centralized Support and Publications Service

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Manon Martel

Support Staff — House of Commons

Sylvie Bednar
Diane Harper
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Julie Parent
Chantal Proulx
Micheline Simoneau

AND

all the others who assisted
the Committee from time to time

LIST OF RESOLUTIONS AND RECOMMENDATIONS

RESOLUTIONS

PART A: APPROACHES TO SALES TAX REFORM

Chapter 2: Alternatives to the Existing Federal Sales Tax

The Committee resolves to conduct an inquiry to hold hearings early in 1990 into the question of government spending and measures to control its growth.

PART B: ECONOMIC AND DISTRIBUTION ASPECTS

Chapter 3: GST Credits

The Committee therefore resolves to conduct an inquiry into Canada's tax and social benefits systems, the interrelationship between the two, appropriate methods of indexing them to price changes, their respective purposes, efficacy, and implications for economic performance; and to report its findings to the House of Commons before the end of 1990.

RECOMMENDATIONS

PART A: APPROACHES TO SALES TAX REFORM

Chapter 1: The Need for Sales Tax Reform

1. That the existing Federal Sales Tax be abolished.

Chapter 2: Alternatives to the Existing Federal Sales Tax

2. That, as a means of replacing the revenue forgone by the elimination of the Federal Sales Tax, a broadly based consumption tax is a superior option to higher income taxes.
3. That a value added tax, such as the goods and services tax, is preferable to a retail sales tax as a substitute for the existing federal sales tax.

Chapter 3: Administrative issues

4. That, the federal government reiterate its support for a national sales tax and offer to establish the National Sales Tax on a partial basis as soon as three or four provinces, with a substantial population, are prepared to take part.
5. That, the design of the Goods and Services Tax should continue to be structured to make it relatively easy for the provinces to take part.
6. That, the federal government should maintain its target of January 1, 1991 for the introduction of the Goods and Services Tax.
7. That the federal government and the provinces should explore all possible means to reduce sales tax collection costs and paper burden through joint collection of tax and auditing, through delegation of collection from one level of taxing authority to another, and through other forms of co-operation.
8. That, the federal government should begin developing plans, with the assistance of any interested provinces, for the creation and operation of a joint national sales tax collection agency to be responsible for collection of a National Sales Tax at such time that a substantial number of provinces had joined in a national sales tax.
9. That, no attempt should be made by the federal government to have the provinces change their present practice, whereby provincial sales tax is computed on top of the price of goods and services, including the federal sales tax or Goods and Services Tax.
10. That, the provinces should, however, be encouraged to develop a uniform standard for how Provincial Sales Tax should be applied to the price of goods and services which are also subject to Goods and Services Tax.
11. That, retailers should be required to inform consumers by signs and other means as to whether prices of goods or services in a retail establishment are quoted including or excluding Goods and Services Tax, but there should be no requirement that prices be quoted pre-tax with Goods and Services Tax added separately.
12. That, the federal government should continue efforts to get the provinces to join in a national sales tax, as this is the ultimate means of resolving the issues of double-taxation and of lack of visibility of the Goods and Services Tax.

PART B: *ECONOMIC AND DISTRIBUTION ASPECTS*

Chapter 1: *Economic Aspects*

13. That the government not proceed with the proposed middle income tax rate reduction and that the savings be used instead to bring about a lower GST rate.

Chapter 2: *Alternative GST Option*

14. That any revenues from sales tax reform in excess of revenues required to finance replacement of the existing FST and associated sales tax credit increases and indexation payments should be used to reduce the government deficit.
15. That the general GST rate be lowered from the proposed 9% to 7%.
16. That excise taxes on alcohol and tobacco products be raised sufficiently to recoup the revenue losses that would otherwise result from the substitution of GST at 7% for the existing FST.

Chapter 3: *GST Credits*

17. That the single person's credit be eliminated and that it be replaced by a higher basic GST credit for the first adult in any household.
18. That the amounts for the GST credit be set as follows: \$250 for the first adult in the household, \$175 for the second adult, and \$100 per child.

PART C: *The Design of the GST*

Chapter 2: *Basic Operation*

19. That full GST input tax credit be allowed for meal and entertainment expenses, and for passenger vehicles purchased or leased, including those purchased or leased by self-employed individuals, partners and persons meeting the criteria of paragraph 8(1)(f) of the Income Tax Act. If the Minister deems it advisable to make appropriate adjustments because of the personal consumption component, the changes should be made by amending the Income Tax Act. The Income Tax complications should not be added to the legislation implementing the GST.
20. That a simplified method to eliminate the provincial sales tax component prior to determining input tax credits be allowed. The optional simplified method could involve use of a reciprocal tax factor to determine the GST input tax credit on the gross selling price including provincial sales tax and GST. An adjusted reciprocal factor to reflect an assumed tax status and value combination could be used where a business is supplying goods with a different tax status for provincial sales tax and GST purposes.

21. That the government cooperate with the provinces to ensure GST input tax credits are treated as a price adjustment for PST purposes.
22. That businesses be allowed to claim a standard percentage on GST tax included (invoiced and non-invoiced) purchases as a GST credit when information as to actual amounts may be inadequate and the risk of revenue loss from error is not significant. The input credit could simply be calculated by applying an appropriate reciprocal factor. Satisfactory documentary evidence should be maintained by the registrant.
23. That on transactions where both parties are registrants and goods, other than inventory and commercial properties exceeding \$1 million, are supplied, GST be collected by the vendor and the input tax claimed by the purchaser on a notional basis only. That is, GST should be deemed collected and the corresponding input tax credit deemed claimed where the vendor and purchaser complete and file a prescribed form, containing details of the transaction, and Revenue Canada, Customs and Excise approves the notational collection and claim. Submission of satisfactory evidence that the proposed use will entitle the purchaser to a full input tax credit should be required, and the procedure should be allowed only in respect of purchases of goods (other than inventory) greater than \$100,000, where a registered vendor has annual taxable sales greater than \$500,000, and of purchases greater than \$30,000, where a business has annual taxable sales less than or equal to \$500,000.
24. That certain related groups be allowed to elect to be treated as a single entity for GST filing purposes only. The related group given the option of group registration would be a related group as defined in Section 251 of the Income Tax Act, except that control would be deemed to mean 100% ownership. A member company could be designated as being responsible for accounting for the GST for the entire group. Although individual member companies would thereby be relieved of responsibilities to file returns, they would still be required to issue tax invoices and keep records. Also, although only one registration number could be given the group of companies, for control purposes individual member companies could be required to register as part of the group.

Chapter 3: Defining the Tax Base

25. That tax by the nature of the establishment be adopted by the Government for incorporating restaurant meals and take out prepared food into the tax base.
26. That, the Government review the list of zero-rated medical devices in consultation with representatives of the disabled on a regular basis.
27. That, health care service provided by psychologists who are registered under the Canadian Register of Health Service Providers in Psychology be exempt under the

GST. The Committee further recommends that non-diagnostic psychological services provided on an elective basis continue to be taxable. For greater certainty, the Committee recommends that the Regulations to the Excise Tax Act provide that only those psychological services billed under codes A1-A2-A3 or T1-T2-T3 as diagnostic health care under the fee schedule of the Council of Provincial Associations of Psychologists be treated as exempt.

28. That, all provincially licensed commercial day care services be entitled to a rebate of 50% of all GST paid.
29. That, the provision of legal aid services be made fully taxable and that a full rebate of tax be paid to all provincial legal aid societies.

Chapter 4: the GST and Small Business

30. That a small business collection fee be paid, equal to the lesser of \$600 or 5% of the net remittance of the registrant. In accordance with the Technical Paper proposals, the fee should be available only to registrants who are carrying on a business and have revenue from taxable and zero-rated supplies of \$2 million or less in a full fiscal period.
31. That the government consider use of general simplification methods for various types of small businesses, and not just registrants selling a combination of taxable and zero-rated food products at the retail level. Since a second threshold limit could ease the transition to the GST for businesses exceeding the \$30,000 threshold, the government should consider especially simplifying procedures for small businesses in particular industries that have supplies of goods and services between the \$30,000 exemption limit and a \$500,000 limit. In all cases where additional methods are developed, the use of the method should be optional only. Small business fees should not be paid to those using simplified accounting methods, and businesses using the methods should not be allowed to adjust the net remittance calculated under the method if a lower net remittance is later calculated under the regular method. However, businesses should have the option to change the method of calculation the following year.

That the government should allow the following simplifying methods when the GST system is implemented:

- (a) a reduced rate option similar to Japan. Use of the option would have to be approved by the Minister;
- (b) a de minimis rule similar to Japan. This revenue test would be in addition to the use test outlined in Section 108 of the Draft Legislation; and
- (c) a direct seller option which provides that where all or substantially all of the goods supplied by a particular person (the "Supplier") are ultimately

sold to consumers by itinerant vendors (i.e. persons selling from no fixed place of business) at prices not exceeding the suggested retail selling prices established by the Supplier, and the Supplier and all persons purchasing such goods for resale (the "Vendors") enter into a collection agreement, in prescribed form, with the Minister of National Revenue, for the purpose of the collection and remittance requirements, the Vendors shall be deemed to be employees of the Supplier. Under the terms of the Collection Agreement the Supplier will be deemed to have collected GST in respect of all goods sold by it on an amount equal to the value of the consideration for which the goods are offered for sale at retail. The value of the consideration for which the goods are offered for sale at retail shall be deemed to be not less than the suggested retail selling prices established by the Supplier.

Chapter 6: Transportation and Travel

33. That the claiming process for the foreign tourist rebate be simple and visible. At any point of entrance into Canada, information explaining the rebate system should be available to foreign visitors. The tourist sales tax rebate must be refundable, in Canadian dollars, through mail or refundable immediately at designated points of departure from Canada. The government should remit the GST, through the Duty Free Shops so that tourists can get their rebate instantly and in cash as they leave the country.
34. That, if prepaid by the foreign shipper and as long as a declaration specifies that the transportation services is part of an international continuous movement of goods, the domestic segment of inbound international freight movements be zero-rated, whether there is a second bill of lading or not.
35. That once its financial position is more balanced, the government should consider the advisability of integrating the excise tax on fuel into the GST through the input tax credit system, in order to eliminate the distortions associated with the excise tax.

Chapter 7: Real Property

36. That rebates not be paid to charities, non-profit organizations and selected public sector organizations for taxes paid on real property acquisitions or by application of the self-supply rule.
37. That per diem rentals of residential units at a cost of \$20 or less be exempt supplies.
38. That, where the value of a commercial property exceeds \$1 million, the purchaser, rather than the vendor be required to remit the tax. The vendor should, in these cases, be required to notify Revenue Canada of the sale by sending a form to this effect.

39. That a tax rate of 5% be apply to all taxable supplies of real property.
40. That all supplies of real property (except supplies of land used in a farming business by an individual to a related individual, or supplies of land used in a farming business as part of the transfer of a going concern) be taxable at 5%.
41. That the taxable amount of a supply of non-commercial property (new and existing housing, new and existing personal-use properties and new and existing residential rental properties) be computed in accordance with the trade-up approach, generally meaning that a purchaser of a non-commercial real property will only be liable for tax to the extent of the difference in price between the property sold and the price of the property purchased.
42. That the trade-up approach not apply to the purchase of commercial real property, meaning real property used or sold in the course of a commercial activity.

Chapter 8: Charities and Non-profit Organizations

43. That, as proposed in the Technical Paper, charities and qualifying non-profit organizations should get special treatment under the Goods and Services Tax in recognition of their important services to the community. In the form of a 50% rebate on Goods and Services Tax paid on their purchases.
44. That, the Department of Finance review the proposed 50% rate of rebate with affected charities and non-profit organizations to ensure that it is equitable and that the overall federal sales tax burden of this sector does not increase with the introduction of the Goods and Services Tax.
45. That, in general, relief from Goods and Services Tax which is given to charities, to qualifying non-profit organizations and to public-sector organizations in Canada should be provided through a rebate system as proposed in the Technical Paper rather than through zero-rating or by providing tax-free status on purchases. The affected organizations should therefore pay the Goods and Services Tax on their purchases and get relief through rebates rather than buying goods and services free of tax.
46. That non-profit organizations should be eligible to receive a 50% rebate of the GST paid on their purchases if they are 25% or more funded by government in a given year, not 50% as proposed in the Technical Paper. For non-profit organizations falling short of the 25% test, the 50% rebate should be reduced by one-fifth for each percentage point that the organization's funding from government falls below 25% of its revenues.

47. That for the purposes of GST, provincial sports federations should be treated on the same basis as registered amateur sports organizations in order that they automatically qualify for 50% rebate of GST paid on their purchases.
48. That a non-profit organization which qualifies for the 50% rebate of GST paid on purchases because it is substantially funded by government should be able to continue claiming the rebate on a monthly or quarterly basis rather than wait to the end of each fiscal year, as proposed in the Technical Paper, provided that it has met the qualifying test for the 12 preceding months.
49. That the government should pay interest on rebates of GST to charities, to qualifying non-profit organizations and to the MUSH sector starting 21 days after filing, rather than starting after 60 days as proposed in the Technical Paper.
50. That commercial supply by charities and non-profit organizations should generally be liable to GST, subject to exemptions such as those which are provided in the Technical Paper.
51. That the Departments of Finance and National Revenue work with charities and non-profit organizations to develop a streamlined approach that would simplify their accounting for taxable supplies under the GST and reduce the related complexity and administrative costs.
52. That the government should issue an interpretation bulletin to clarify that non-profit organizations will not lose their exemption from tax under the Income Tax Act by virtue of engaging in "commercial activity" as defined for the purposes of the GST.
53. That the volunteer exemption proposed in the Technical Paper be amended and clarified to specify that charities will be exempt from charging GST on supplies where all or substantially all (i.e., 90% or more) of the time worked in day-to-day administration and operation of the activity providing the supply is carried out by unpaid volunteers. Alternatively, Revenue Canada should issue an interpretation bulletin to clarify that this is what the volunteer exemption provided under the GST means.
54. That the "volunteer exemption" applied to charities should also be extended to those non-profit organizations which qualify, because of their level of government funding, for a 50% rebate of GST paid on their inputs.
55. That membership fees in non-profit organizations should be exempt from GST where they have a direct cash value that does not exceed \$25 and is less than 50% of the cost of the membership.

56. That the exemption from GST for supplies at nominal consideration provided by charities and non-profit organizations should remain as proposed in the Technical Paper.
57. That the federal government should develop information packages with private sector suppliers and with associations in the charitable and non-profit sectors to help ensure that make-or-buy decisions in public-sector organizations are not distorted by lack of knowledge about the GST and rebate systems.
58. That recreation programs provided by public sector bodies should be exempt from GST for teenagers as well as for children, and for this purpose the qualifying age should be 18 and under, rather than under 14 as proposed in the Technical Paper.
59. That the federal government should cooperate closely with sports federations and other sports organizations to resolve administrative and compliance problems created by the introduction of the GST.
60. That federal support for national sports organizations should be increased in the early 1990s if it appears this is needed to maintain the standard of Canada's national sport program under the GST.
61. That revenue Canada should clarify through an interpretation bulletin the status of sponsorships by business of sports and cultural activity. The charging of GST on sponsorships should be optional unless they provide the sponsor with a substantial and direct commercial benefit.
62. That where services are provided to a group of charities or non-profit organizations by a related organization, or an umbrella organization that is set up for that purpose and certified by the Minister of National Revenue, these supplies should be exempt from GST.
63. That the federal government make special grants to the Canada Council and other agencies supporting the arts beginning in 1991, to the extent that this may be needed to offset any serious problems created for arts organizations through the introduction of the GST.
64. That to simplify the administration of GST in relation to contracts with artists and performers, the government permit producers and arts organizations to deduct GST that is payable on these contracts at source in a manner similar to the deduction at source of income tax.

Chapter 9: The Public Sector

65. That the Department of Finance proceed immediately to determine rebate rates for the MUSH sectors in close consultation with the affected institutions and their respective associations.
66. That, as proposed in the Technical Paper, there should be only one rate of rebate of GST paid on inputs for each of the four major areas in the MUSH sector.
67. That the Departments of Finance and of National Revenue work with MUSH institutions to develop a streamlined accounting system that will simplify their accounting for the net amounts of GST payable on their taxable supplies.
68. That, as proposed in the Technical Paper, rebates of GST paid on purchases be paid directly to MUSH institutions rather than being paid through provincial governments.

Chapter 11: Financial Services

69. That the Department of Finance give consideration to the appropriate means by which input tax credits on business inputs supplied to registered vendors pursuant to a property and casualty insurance policy could be allowed.
70. That the definition of investment quality precious metal be amended to include gold and silver coins with a purity level of at least 90%.
71. That the 10% rule should be rescinded and a revenue test should apply to persons whose annual revenue in the immediately preceding taxation year, in the form of interest and dividends received from unrelated persons and required to be included in income from a business for Canadian income tax purposes, exceeded \$10 million, or a pro-rata amount for a short taxation year.
72. That, unless substantially all (i.e., 90%) of a taxable supply purchased by a financial institution is used by it in the course of making a taxable supply, the input tax credit entitlement of such financial institution be limited to the portion of the purchased taxable supply that can reasonably be considered to have been used by it in making zero-rated supplies described in Part IX of Schedule II.
73. That the Minister of National Revenue be permitted to grant group relief to particular named corporations with respect to specified types of transactions with financial institutions (including data processing, management, accounting and administrative services).
74. That, if group relief is provided for transactions between financial institutions and related corporations, comparable relief should be extended to transactions

between *caisses populaires* and credit unions with like institutions that form part of a federation.

75. That no self-supply rule be enacted for financial institutions.
76. That all supplies made by a property and casualty appraiser or adjuster who performs all of his or her services for one or more property and casualty insurance companies be treated as an exempt supply.
77. That supplies of financial services made under contracts entered into before January 1, 1991 not be zero-rated.

Chapter 12: Transition

78. That the Government allow as an option an actual physical stock taking within a reasonable period, perhaps 3 to 6 months, before or after the implementation date, with reliance on normal books and records (or previous year's averages) to estimate physical inventory as of December 31, 1990. In claiming rebates of federal sales tax in inventory, a business be allowed:
 - (a) to reduce its net GST remittances for periods ending on or before April 30, 1991 by an aggregate amount not exceeding its federal sales tax rebate entitlement: and
 - (b) after April 30, 1991, to claim a cash refund for the balance, if any, of the federal sales tax rebate, with interest on such amount to be paid on any amount not paid within 21 days from the date the rebate claim is received.
79. That registrants who on January 1, 1991 hold inventories of non-commercial properties (including unregistered condominiums, and properties subject to an agreement of purchase and sale) receive a rebate of federal sales tax, based on their work in progress records and the estimated federal sales tax content per square foot, allowable only against net GST remittances under the new system.
80. That the lease of goods that were subject to federal sales tax pursuant to a lease entered into before January 1, 1991, be treated as an exempt supply until December 31, 1993.

Chapter 13: Other Operational Aspects

81. That individual partners be permitted to claim input tax credits with respect to partnership expenses on either a monthly or quarterly basis.
82. That individuals, who in the course of their employment earn commission income and who meet all the conditions of application of paragraph 8(1)(f) of the *Income Tax Act*, be treated as independent agents for the purpose of their entitlement to input tax credits for taxes paid on the purchase of any property

acquired to enable them to earn their commission income. The input tax credits should only be available to the extent that all expenditures or outlays in a given year do not exceed the commission income for the year.

83. That full GST input tax credit be allowed for meal and entertainment expenses, and for passenger vehicles purchased or leased, including those purchased or leased by self-employed individuals, partners and persons meeting the criteria of paragraph 8(1)(f) of the *Income Tax Act*. If the Minister deems it advisable to make appropriate adjustments because of the personal consumption component, the changes should be made by amending the *Income Tax Act*. The Income Tax complications should not be added to the legislation implementing the Goods and Services Tax.
84. That the GST not apply to pari-mutuel betting.
85. That GST not apply to provincial lotteries.
86. That a notional input tax credit be allowed to registrants for the purchase from non-registrants of used appreciating goods as defined in paragraph 54(e) of the *Income Tax Act*, such as coins, stamps, art and other collectibles, or as may be prescribed. The Committee further recommends that notional input tax credits be payable only upon the registrant establishing through sales documentation or other evidence satisfactory to Revenue Canada that the tax remitted by the registrant on the sale of the used appreciating good is equal to or greater than the notional input tax credit in respect of the same used appreciating good.

APPROACHES TO SALES TAX REFORM

On August 8, 1989, the Minister of Finance issued the "Goods and Services Tax Technical Paper" (the "Technical Paper") setting forth the government's proposal for replacement of the existing federal sales tax ("FST") with a goods and services tax ("GST"). On October 13, 1989, the Minister issued a document "Goods and Services Tax Draft Legislation" ("Draft Legislation") to be read in conjunction with the Technical Paper.

Attempts at sales tax reform in Canada have a history that is even longer than attempts at constitutional reform. We've had a manufacturer's sales tax at the federal level since 1924. Calls to abandon that tax came almost immediately following its introduction - and not from self-interested parties only. The Rowell-Sirois report in 1940, the Carter Commission on Taxation in 1966, the Macdonald Royal Commission in 1985, and various task forces and study groups in-between, unanimously condemned the manufacturers sales tax as a poor tax that ought to go.

Even groups that oppose the proposed Goods and Services Tax recognize that the manufacturers sales tax is inimical to Canada's interests. As stated by the United Steelworkers of America in their submission to the Committee:

In a country whose manufacturing economy is under constant pressure, it makes no sense to have a tax system that biases the internal economy in favour of service providers. And in an economy as heavily dependent on trade as Canada's, it makes no sense to impose what amounts to a tax on exports of manufactured goods.

The present federal sales tax applies to all goods sold by manufacturers in Canada and to finished goods imported into Canada, except those that are specifically exempted. The range of exemptions is wide: it includes food, clothing, footwear, pharmaceuticals, and equipment used in commercial transportation, construction, agriculture and manufacturing. Most services are also exempt. The one exception is the 11% telecommunication services tax introduced in 1987.

The tax is generally levied on the manufacturer's selling price of domestically produced goods and on the duty paid value of imports. For some products, including cosmetics, vehicles, gasoline, microwave ovens, televisions and video recorders and players, the tax is levied at the wholesale level. The general rate at which most goods are taxed is 13.5%. Alcohol and tobacco are taxed at 19% and building materials at 8% (9% effective January 1, 1990).

As already noted, the FST has been studied extensively and its many shortcomings are well-known. A brief review of the problems associated with this tax may nevertheless be

useful in explaining the wide consensus among tax specialists that the FST ought to be abolished.

A) Narrow Base

To begin with, the FST is very narrowly based. It applies to barely 1/3 of total consumer spending on goods and services. About 40% of revenues from the tax are accounted for by five commodity groups only: tobacco, alcohol, gasoline, automobiles and automobile parts. The tax, therefore, distorts consumer choices, by favouring some commodities over others, and discriminates against households with greater preference for the taxed commodities relative to households with stronger preferences for commodities that are not taxed.

The narrow tax base also implies that the tax rate must be high to achieve the government's revenue objectives. High rates do not only compound the inequities between taxed and tax-free commodities, they increase incentives for efforts to avoid or evade the tax. Administration of the tax system by the tax authorities thereby becomes more difficult and compliance by taxpayers more costly.

To a large extent, the narrow base of the FST reflects deliberate policy decisions to leave certain items out of the base as a means of improving the distributional impact of the tax. The exclusion of food, clothing and footwear can probably be explained on this basis. Exclusion of most services from the base, however, cannot be so explained. Services are disproportionately consumed by higher income households, and their exclusion from the tax base makes the tax more regressive. Since services, however, are sold directly to consumers, a tax imposed prior to the retail level obviously cannot cover most services. The exclusion of services, therefore, is an inherent feature of the FST.

B) Wide Variation in Effective Tax Rates

The application of the tax at an early stage in the production and distribution process creates a host of other problems as well. As already explained, for most goods the FST is generally levied at the manufacturer's or importer's level. Consequently, it does not generally apply to the wholesale and retail margins that go into the determination of the final selling price. The effective tax rate at the retail level, therefore, will vary depending on the size of these margins, or the mark-up from the manufacturing to the retail level. A product where the post-manufacturing level mark-up is low will be taxed more heavily than one where the mark-up is high. As a result, the tax on finished products can be highly variable, even among competing products. A 1984 survey conducted for the Department of Finance found that the range between the lowest and highest effective tax rates exceeded 500%, i.e. items taxed at the highest rate bore a tax rate more than four times the rate borne by the most lightly taxed items. Effective tax rates varied widely even among similar products. Among autoparts, for example, effective tax rates varied by more than three times; similarly for cosmetics and for office supplies. Thus the FST favours — in arbitrary and unpredictable ways — some manufacturers over others, and brings about a pattern of final selling prices which differs

markedly from the pattern of relative costs of the different items that ought to guide consumer choices.

An additional complication with the present FST system arises from the fact that the economy is not neatly divided into manufacturing, wholesale and retail sectors, with goods flowing smoothly through each sector before reaching final users. A large portion of manufactured goods today is sold directly by manufacturers to retailers or end users. In this light, a strict application of the requirement that the tax be imposed on the "selling price" of the manufacturer would create serious inequities: sales made directly to retailers or final consumers would be taxed on a much higher base than sales of the same product to wholesalers. To prevent this from happening, Revenue Canada allows manufacturers to establish discount "notional values" on which the FST is levied. While these arrangements have helped to make the system fairer, they are far from a fully satisfactory solution to the inequities inherent in a manufacturers' form of tax. The notional values are largely arbitrary and difficult to monitor. In addition, they lack legal sanction and, hence, are not subject to judicial review. They are the result of private, confidential arrangements, so that a manufacturer may be taxed at a different rate from his competitors and not even be aware of it.

Also, as the 1975 Green Paper on sales and excise taxation pointed out, since "notional values" always involve discounts from actual selling prices, "they are ineffective when removal of competitive distortions would require an increase in the taxable value of certain goods."⁽¹⁾

This is often the case with imports, because marketing, warranty, and distribution costs, which are normally included in the taxable value of domestically produced goods, are usually not included in the duty-paid value on which the FST on imports is levied. As a result, the effective tax on imports is lower than on domestic products. The difference is considerable. According to the 1984 survey already cited, on average the effective tax rate on domestic products is one-third higher than on competing imports.

C) Taxation of Business Inputs

Approximately one-half of total revenues from the FST is derived from business inputs. Since these business inputs are used in the production of both taxable and tax exempt commodities, the latter also bear the tax. According to estimates by the Department of Finance, food, though statutorily tax-exempt, is in fact taxed at an effective rate of 1.6% owing to the FST embedded in commodities used in food production. More generally, goods produced by taxed inputs may be taxed again, resulting in tax cascading, or compounding of tax on tax. The resulting tax burden on finished consumer products is consequently both arbitrary and unknown.

As well, the tax on business inputs amounts to a serious handicap for Canadian exporters. Although GATT regulations do permit remission of indirect taxes paid on goods that are exported, full offset of the FST is difficult because of the difficulty of accurately calculating the FST content in the price of exports. On average, the FST content in exports is

slightly more than 1% of the value of the goods exported. Given the low margins in international sales, this amounts to a significant cost disadvantage for Canadian exporters.

D) Unreliable Source of Revenue

The narrow base of the FST and the fact that the tax is levied at an early stage in the production and distribution process provide opportunities to shift manufactured products outside the base to avoid the tax. An increasingly popular method of avoidance in recent years has been the establishment of marketing and distribution subsidiaries to which manufacturing firms are able to register sale of their goods, thereby reducing the value on which the FST applies. A 1986 ruling by the Federal Court of Canada confirmed the right of manufacturers to establish such related marketing and distribution companies, endorsing in the process a major tax loophole. Attempts by the government to deal with this problem, by shifting the tax to the wholesale level, have proved unworkable.

Beyond efforts by producers to push forward as many functions as possible so as to minimize the base on which taxes are applied, another way of avoiding the tax is to claim that one's product falls within one of the numerous exempt categories provided for under the *Excise Tax Act*. Higher tax rates encourage greater tax avoidance efforts. As these efforts collide against attempts by Revenue Canada to prevent erosion of the sales tax base, the predictable result is a higher dose of administrative rulings, legal challenges and ad hoc patching up of an increasingly unsalvageable system. There are only 75,000 taxpayers under the FST, but 22,000 special provisions and administrative interpretations of the *Excise Tax Act* have proved necessary to keep the system operating. As of last August, there were 227 outstanding court cases relating to product classification under the tax (i.e. whether a product is taxable or non-taxable), compared to 186 two years earlier. Yet, the leaks in the system grow wider. According to estimates provided to the Committee by the Department of Finance, continuation with the present system would lead to revenue losses, through tax avoidance efforts, of some \$2 billion a year, or more than 10% of total annual revenues from the FST (estimated at about \$17 billion in the current fiscal year).

In short, the FST is a tax broken beyond repair. The question is not whether to keep it, but how best to replace it.

Therefore the Committee recommends:

- 1. That the existing Federal Sales Tax be abolished.**

Current projections show that by 1991 the FST will be generating approximately \$18.5 billion for the federal treasury. If this tax source is abolished, something will have to be done about the consequent revenue shortfall. What is that something to be?

We have heard arguments that the resulting loss of revenue need not be made up through other taxes: one alternative is to continue reducing government spending. We strongly support the view that public spending must be most carefully controlled and that government activities must be curtailed whenever their value no longer justifies the resources that they absorb. In order to help identify areas where savings might be made, the Committee intends to hold hearings early in 1990 to provide the many witnesses who proposed spending cuts with an opportunity to elaborate on their proposals.

The Committee therefore resolves to conduct an inquiry and hold hearings early in 1990 into the question of government spending and measures to control its growth.

Program evaluation and tax reform, however, are separate exercises — and at this time we are engaged in the latter. At any rate, particularly in the present fiscal context, spending restraint cannot substitute for the FST. The current federal government deficit is roughly \$30 billion a year, and will grow larger if the economy turns sluggish or goes into recession. At a time when government finances are in such straits, to remove a major source of revenue without replacing it would be not only unrealistic but irresponsible. The markets would not find such an option credible, and to attempt it would lead to a loss of confidence in the Canadian economy that would exacerbate our financial difficulties.

Realistically, then, elimination of the FST implies that we must find alternative revenues for the revenues forgone. There are three main alternatives: increases in the income tax, a federal retail sales tax (RST) or a value added tax (VAT).

A) Income vs. Consumption Taxes

A large number of the submissions that we received and many of the witnesses that appeared before us, particularly witnesses representing organized labour and anti-poverty organizations, expressed support for a shift in government revenue sources towards greater reliance on income taxes. They drew attention to the fact that the trend since the early 1980s has been in the opposite direction. Between fiscal year 1984 and fiscal year 1989, federal revenues from sales and excise taxes rose from \$12 billion to over \$23 billion. In 1984, sales and excise taxes accounted for less than 19% of all federal revenues; today that share is 23% and climbing⁽²⁾. By contrast, the share of income taxes has remained constant over this

period, at 2/3 of total revenues. In dollar terms, income tax revenues amounted to \$70.6 billion in fiscal year 1989 compared to \$42.2 billion in fiscal year 1984.

The main source of opposition to consumption taxes is the perception that they are inherently regressive. Since consumption as a percent of income generally falls as income rises — i.e. the savings rate rises with income — consumption taxes tend to tax a greater proportion of the incomes of the poor than of the affluent. An increased reliance on consumption taxes, therefore, tends to erode the progressivity of the tax system, shifting a greater portion of the overall tax burden towards lower income groups. Income, it is argued, is a better measure of one's ability to pay; and the ability to pay ought to be the central principle on which an equitable tax system is based.

This is a powerful argument, but not without challenge. Against the position that income ought to be the basis of taxation is the view that what people take out of the economy through consumption is a fairer basis of taxation than what they contribute to it in the form of income. As Professor Robert Clark pointed out in a comprehensive submission to the Committee, this view, whose pedigree can be traced back for centuries, was more recently endorsed by the U.K. Committee on tax reform, chaired by Nobel-laureate economist James E. Meade. In the words of that Committee:

A strong case can be made for this [consumption] base in that it levies a tax on the claims which a taxpayer makes at any one time on the community's resources which he uses up for his own consumption purposes. If he saves his income instead of consuming it, he is putting resources back into the productive pool; if he dissaves, he is taking resources out of the productive pool in addition to his other income. His relatively low consumption in the case of savings and his relatively high consumption in the case of dissavings are measures of what he is appropriating at any one time for his own personal use.⁽³⁾

A basic principle of equity in taxation is that individuals of similar economic capacity should be taxed similarly. Income taxes fail to satisfy this principle. They tax more heavily persons who save than persons with the same income but a higher propensity to spend. This is because income taxes tax savings twice, once when income is first received and then again when savings from that after-tax income yield a return. Thus, for instance, two individuals with the same initial endowments would pay the same income tax the first period, but the individual with a stronger preference for savings would bear a higher tax burden in later periods. The stronger the preference for savings, the heavier the additional burden.

The burden of consumption taxes, on the other hand, is independent of the time path of consumption. Of two individuals with the same income, the one who saves more is taxed less at first, but more in later periods when he spends his savings. On a present value basis, the tax burden is equal for both individuals.

In addition to being fairer than income taxes in this respect, consumption taxes are also more efficient. The double taxation of savings under an income tax system reduces the rate of return to savings below the yield of the investment financed by those savings. This

tends to encourage consumption over saving, resulting in lower savings, investment and economic growth. Consumption taxes, by contrast, tax present and future consumption equally. Their effect on choices of whether to consume or save is therefore neutral.

It is also important to make the point that the measured regressivity of consumption taxes is largely a function of the accounting period over which the incidence of tax burdens is assessed. The longer the period, the less regressive is the measured impact. The reason is simple. For most people, savings represent postponed consumption. Measured over a lifetime, one's savings tend to be small, and savings rates differ little across income groups. The lifetime incidence of consumption taxes, therefore, is nearly proportional rather than regressive. Their impact on lower income households can be made progressive by exempting basic necessities from the tax or, more directly, by providing low income households with tax credits to compensate them for taxes paid.

On balance, therefore, we do not believe that equity-based considerations preclude an important role for consumption taxes in our fiscal system. On the contrary, as the Green Paper on *Federal Sales and Excise Taxation* stressed fourteen years ago, "The presence of commodity taxes enhances the equity of the overall tax structure by supplementing income as a measure of ability to pay. Individual circumstances differ in ways which cannot be fully recognized by any single index of taxable capacity or by any single tax. The greater the reliance upon any single tax, the greater the likelihood of unacceptably large strains and distortions. These are best avoided by the adoption of a "balanced" tax system; i.e., one where the burden of raising revenues is divided among several revenue sources so that no single source is utilized to the point of generating severe and unacceptable distortions." ⁽⁴⁾

Canada's income tax system underwent a major overhaul barely two years ago, under Phase I of tax reform. The thrust of that reform was to widen the tax base and reduce tax rates for both the corporate and personal income tax systems. A prime motivation behind those changes was the need to make the tax system more efficient and to improve the competitive position of Canadian industry in a world that is increasingly interlinked. Higher surtaxes on individual incomes introduced earlier this year have partially offset the benefits of tax reform under Phase I. Additional increases in income taxes would further undermine those benefits, and risk alienating domestic capital and high-skilled labour to more genial jurisdictions abroad. In short, they could be self-defeating. A broadly based consumption tax would avoid that risk and retain a finer balance between direct and indirect taxation in Canada. In the Committee's view, it is a better option.

Therefore the Committee recommends:

2. That, as a means of replacing the revenues forgone by the elimination of the Federal Sales Tax, a broadly based consumption tax is a superior option to higher income taxes.

B) RST vs. VAT

A consumption tax is a tax levied on consumption, or spending, rather than income. Thus the current FST is itself a consumption tax. So are the various retail sales taxes levied by provincial governments.

The characteristic feature of consumption taxes is that they are levied on consumption, or spending, rather than income. Of the many varieties possible, there are two principal contenders: a retail sales tax or a value-added tax ("VAT"). The retail sales tax is imposed on a broad range of goods and services when they are sold at the retail level or to the final consumer. The VAT is levied at every stage in the production and distribution process, or more precisely, every time that a sale is made in that process until the commodity reaches the final consumer. Every business that pays the tax, however, receives a corresponding credit, so that in the end only the final consumer pays the tax. The GST is a form of VAT.

The retail sales tax and the VAT are equivalent in their economic impact, differing only in their method of collection. As already noted, both are taxes on final consumption. Applied on the same base and at the same rate, they would yield the same revenue and have the same distributional impact. The choice between them, therefore, hinges on practical considerations concerning the operational aspects of these two forms of tax.

A retail sales tax is probably easier to administer and to comply with. It requires registration by fewer companies, since only sellers at the end of the production and distribution chain collect the tax. Record-keeping requirements under a retail sales tax would also be less onerous: registered traders need keep track of tax collections on their sales only. Under a VAT, by contrast, each trader is required to keep full records in respect of both purchases and sales to substantiate taxes collected and tax credits for taxes paid. In many cases, taxes paid will exceed liabilities, and tax authorities will have to process tax refunds. Operating costs for a VAT are probably higher than for a retail sales tax.

The VAT has two significant advantages over a retail sales tax: it is more difficult to evade and more effective in exempting producer goods from taxation. Both advantages stem from the relatively heavier record-keeping requirements entailed in a VAT. The tax credit system of the VAT helps reduce the incidence of tax evasion, since every tax-payer along the production and distribution chain has an incentive to ensure that his predecessor has correctly invoiced the amounts of taxes paid so that he can in turn reduce the net tax liabilities on his sales. A VAT system therefore is largely self-enforcing. Generally, the higher the tax rate, the greater the incentive to evade the tax, and the greater the advantage of the VAT over a retail sales tax.

The tax credit system under a VAT also makes it easier to relieve business inputs from tax. Every purchaser under such a system pays the tax, but registered traders qualify for an offsetting credit. Relief of tax on business inputs is thus automatic and total. Under a retail sales tax system, two means are used to avoid taxing business inputs. One is to exempt producer goods from the tax; the other is to exempt certain purchasers from the tax. The first

approach is inadequate in dealing with mixed-use goods (goods that are used by both producers and final consumers). The second places an onus on the seller to determine whether the purchaser is eligible for a tax exemption, a task that sellers will often be in poor position to accomplish. In practice, therefore, retail sales tax systems tend to tax producer goods to a much greater extent than VAT systems do. ⁽⁵⁾

On the whole, the net advantages of a VAT seem to exceed those of a retail sales tax. Certainly, worldwide the VAT is the consumption tax of preference by far. Within the OECD, 19 of the 24 member countries have a VAT. This experience in itself is a strong argument in favour of this form of tax over a retail sales tax. Therefore, the Committee supports implementation of a VAT, such as the GST, in place of the existing FST.

Therefore the Committee recommends:

- 3. That a value added tax, such as the goods and services tax, is preferable to a retail sales tax as a substitute for the existing federal sales tax.**

REFERENCES

- (1) Department of Finance, Discussion Paper: Federal Sales and Excise Taxation, Ottawa, June 23, 1975, p. 17.
- (2) These shares are net of energy taxes. The share of sales and excise taxes inclusive of energy taxes fell marginally over this period, from 25.3% in fiscal year 1984 to 24.8% in fiscal year 1989, owing to a reduction in petroleum sector taxes.
- (3) The Institute for Fiscal Studies, The Structure and Reform of Direct Taxation, Report of a Committee chaired by Professor J.E. Meade, George Allen and Unwin, London, 1978, p. 33.
- (4) Op. cit. p. 13.
- (5) OECD, Taxing Consumption, Paris, 1988, p.106

A) A National Sales Tax

Many witnesses were concerned at the complexity and the cascading of taxes that would result from bringing in a Goods and Services Tax while retaining existing provincial sales taxes, and therefore urged that there be one national sales tax in Canada. Some suggested that the introduction of the GST be deferred from January 1, 1991, in order to allow sufficient time to put a national sales tax in place.

The Committee met with a number of provincial Ministers of Finance to explore provincial concerns about the GST. It also inquired into the series of meetings which were held between federal and provincial officials to try to develop a national tax before negotiations came to an end soon after the meeting of Finance Ministers in April, 1989.

Although the provinces have now expressed strong opposition to the GST, they participated actively in the technical discussions aimed at designing a national tax. According to Department of Finance officials, most of the features of the GST as proposed in the Technical Paper are based on that design for a national tax.

This view was supported in an address delivered to the Canadian Institute of Chartered Accountants (C.I.C.A.) in October 1989 by Mr. L.R. Leonard, who served as Ontario's Assistant Deputy Minister for the tax reform process from October 1987 to June 1989. As he describes it, the National Sales Tax Working Group of officials, which was set up in late 1986 to explore the idea of a joint tax, met regularly over an 18-month period.

"These meetings were characterized by a level of goodwill, energy and constructive advice that certainly was superior to anything else I saw in twenty years on the federal-provincial scene.

For all issues, either solutions were hammered out, or at the very least, a narrow range of options was agreed to. The end result was a straight technical report for consideration by Treasurers and Ministers of Finance...

... I do not agree that the process was a failure. The National Sales Tax Working Group got very close [to getting an agreement]."

Mr. Leonard blamed "time or the shortage of it" for the failure to agree.

"First, the federal election put ... a 90-day hole in the schedule. Second, to create full NST, it would have been necessary to somehow cause nine provincial legislatures and the House of Commons to move at the same pace towards the same

legislation at the same time. Given varying pressures and priorities, this would have been very difficult, although not impossible.

Third, there was the matter of the federal schedule, calling for implementation in 1991 ... by April of 1989, there was no more time to wait in the face of the uncertainties of federal-provincial negotiations."

The Committee does not believe that this failure means an end to the prospects of a national sales tax. The design of the GST does make it possible to include the provinces at a later date, and it does not require that all provinces join in the GST at once. One can therefore foresee a scenario where three or four provinces, representing a substantial number of Canadians, joined in the GST after the tax had become established and the remaining provinces joined a short time later.

The province of Quebec or of Ontario would have to be part of the first group for this scenario of a partial national sales tax to work. The transition would obviously create some further complexity, but there would also be benefits to the provinces that joined because their industries would not be subject to cascading of PST on business inputs.

In a joint GST or national sales tax, the provinces would be free to maintain their own rate of tax just as they do now under the shared collection of income tax. As with the federal income tax, however, the tax base of the GST would be maintained on a uniform basis and could not be varied from one province to another.

The Committee does not support the idea that the tax base of a national sales tax might vary in different provinces, even though this would give more flexibility to the provinces in fiscal policy. Under this approach, Quebec could join in a national sales tax but could continue to exempt furniture purchases from the provincial portion of the NST. Another province might choose to exempt the first \$5 worth of restaurant meals and another might reduce its share of the national tax on hotel rooms in order to encourage tourism.

As these examples indicate, a national sales tax would quickly become more complicated if provinces were free to vary the tax base, and the NST would lose the simplicity which is one of its major assets. The Committee believes that the federal government should continue to insist on a uniform tax base as a precondition for a national sales tax.

A national tax would be simpler for consumers to use than the dual system that is now emerging because almost all of their purchases would be in one province, and at the same rate of sales tax. However, the dual system of GST and PST will be not unlike the present system at the retail level: goods will likely bear GST in the retail price, just as they now bear FST, with provincial sales tax applied at the time of sale. Services to final consumers, which are not currently taxed either for FST or PST, will have to bear GST even if they are not taxed provincially.

For businesses, a national sales tax would be easier to administer than the dual system of sales tax that will be created under the GST, but will not be free of complexity. This is because the provincial portion of the NST will vary by province. Companies selling to

businesses or to final consumers in several provinces will have to charge NST at different rates on their sales depending on the location. On the same principle, inputs purchased in different provinces would bear different rates of tax depending on where they were purchased.

Under the dual system, companies selling to other businesses in several provinces will have to charge GST at one rate on their sales and calculate GST input credits at one rate on their purchases. They will also have to take account of differing rates of provincial sales tax, however, if they are dealing directly with final consumers or are selling business inputs which happen to be subject to PST. Hence, as at present, there will continue to be complications caused by dealing with differences in rate and base between different provincial sales tax systems.

The Committee considered recommending a national sales tax at a standard rate of 15%, with the proceeds shared among the participating governments. Some special measures such as additional equalization payments might be required to maintain revenues for the eastern provinces whose provincial sales tax rates are, for revenue reasons, generally higher than in central and western Canada. The advantages of such a truly national sales tax would be to simplify the system, wipe out the cascading of PST on Canadian exports, and substantially reduce the cost of administration and collection.

The Committee noted that the objective of a national sales tax at a common rate, while ideal, could pose another obstacle to provinces considering whether or not to join in a NST. It also noted that the technical discussions between the federal government and the provinces were generally based on the design of a national tax with differing rates rather than a common rate.

The European Economic Community is currently seeking to harmonize VAT rates among its member countries, 20 years after the VAT first began to be used in the Common Market. Even now, its goal is to reduce the number of VAT rates rather than move all EEC members onto a common rate. This experience in Europe also suggests that getting a NST at a single national rate should be considered as a desirable long-term objective, but that it is unlikely to be achieved at one jump.

An NST with different rates for each province would be more complex for registrants to administer than an NST with a common rate, but would nonetheless have some advantages. For example:

- Vendors now doing business in different provinces must accommodate both to different rates of PST and to differences in the tax base for PST between different provinces. Even if the rates differ by province, an NST would be based on a uniform tax base common to every participating province.
- The whole amount of NST would generate input tax credits, thus ending the cascading of PST that is now levied on business inputs and on export sales. Businesses in participating provinces would therefore have an economic advantage both in the Canadian market and in exports over companies

located in provinces that retained their own sales tax. Once some provinces join an NST, in other words, there will strong incentives, and pressures, for the remaining provinces to join as well.

- If the long-term economic benefits predicted for the GST materialize, then provinces that participated in the NST would be likely, over time, to receive more economic benefits than if they continued with a separate PST.
- Provinces could substantially expand their sales tax base by moving into the NST.
- Broadening the base of PST by folding it into an NST would simplify compliance for governments and for registrants.

The sales tax is one of the few areas where provinces still retain some flexibility in fiscal policy. By joining in a national sales tax, provinces will lose that flexibility. It was notable in the Committee's private meetings with Finance Ministers that several provinces brought up this issue, suggesting that the federal government should be prepared to give them the flexibility in structuring their income and corporation taxes to compensate for the flexibility they would lose if they joined in a national sales tax.

The Committee recognizes that it is now very late to try and bring some or all provinces into a joint GST or national tax with the federal government in time for the proposed implementation date of January 1, 1991. This also seems unlikely for political reasons.

While some witnesses urged that the launch of the GST be postponed to allow more time for the provinces and federal government to arrive at a national sales tax, there is no guarantee that this goal would be achieved through further delay. There is never a "right" time to introduce a new tax, and the objective of a national sales tax is more likely to be achieved by evolution than all at once. It should be made clear, however, that the federal government wants to move to a national sale tax as soon as possible and that, to that end, it is prepared to move to a partial NST as soon as enough provinces want to join in to make such a tax feasible.

Finally, given the different electoral calendars in play, the Committee believes that the best way available to ultimately create a national sales tax which combines both federal and provincial sales taxes on a common base, is for the federal government to begin the process now through adopting the GST.

Therefore, the Committee recommends:

4. That, the federal government reiterate its support for a national sales tax and offer to establish the National Sales Tax on a partial basis as soon as three or four provinces, with a substantial population, are prepared to take part.
5. That, the design of the Goods and Services Tax should continue to be structured to make it relatively easy for the provinces to take part.

6. That, the federal government should maintain its target of January 1, 1991 for the introduction of the Goods and Services Tax.

B) A Joint Agency to Collect Sales Tax

During the Committee's informal meetings with Finance Ministers, several provinces appeared favourable to the idea of a joint or national agency to collect sales tax for the federal and provincial governments. Such an agency would help to reduce the costs of administering the GST and provincial sales tax systems. Several witnesses urged that there be cooperation between the two levels of government in order to avoid duplication and extra expense in sales tax collection and auditing.

The prospects for such an agency in the immediate future are slight, given the provinces' opposition to GST and the lack of agreement on a national sales tax. Such an agency could also run into problems of political accountability. It could be difficult, for example, to determine which minister at which level of government was responsible for tax rulings made by officials. Regulations or legislation needed to plug tax loopholes could be delayed if they had to be passed by all participating governments before they could take effect. Procedures might be needed to resolve disputes in the event that all participating governments did not agree on the need for a particular regulation.

An alternative would be for the provinces and federal governments to share responsibility for collection, with some provincial collection delegated to federal officials (i.e., at customs points) and with Provincial Sales Tax administrations strengthened to handle the bulk of GST collection in each province. This is similar to the present practice in a number of government activities where provincial or federal responsibilities are delegated to the other level of government.

One province expressed concern that the federal government may take the best sales tax collectors from the provinces when it starts recruiting its force of GST collectors, since it may offer better salaries and chances of promotion. Mr. Leonard, in his address to the Canadian Institute of Chartered Accountants (C.I.C.A.), estimated that excluding lawyers and specialists, there are about 1,000 officials collecting provincial sales taxes from a tax-roll of around 400,000 registrants. On the same basis, Revenue Canada had about 1,800 staff handling FST and related taxes and dealing with about 75,000 manufacturers. The net active tax-roll for the GST, based on work done for the NST, would be about 1.4 million businesses and agencies.

Tax administrations are already having difficulty recruiting in the face of a strong economy and salary constraints, according to Mr. Leonard. This coincides with the Committee's information: for example, sales tax audits are running several years in arrears in some provinces because of limited resources and staff. Thus, in Mr. Leonard's words, "it is difficult to see an easy solution to the staffing questions. Yet it must be solved at least at implementation since all computers in the country cannot answer a taxpayer's telephone or letter inquiry."

While recognizing that some duplication is inevitable, the Committee is concerned with the cost and complications of having sales tax collected by two levels of government. According to the Technical Paper, the added costs for federal sales tax administration will amount to \$200 million. The Minister of National Revenue has informed Parliament that his department will require up to 3,900 additional employees to administer the GST.

The Committee believes that a joint collection agency for sales tax is not feasible until such time as the provinces join the federal government in a national sales tax. The provinces have most of the expertise in collecting sales tax in Canada, however, and there is every reason for the two levels of government to co-operate in sales tax collection, even under a dual sales tax system.

The Committee also believes that the provinces will be more likely to consider joining in a national sales tax if the tax is collected by a joint agency or through some other form of co-operation, rather than being collected exclusively by the federal government.

Therefore, the Committee recommends:

7. That the federal government and the provinces should explore all possible means to reduce sales tax collection costs and paper burden through joint collection of tax and auditing, through delegation of collection from one level of taxing authority to another, and through other forms of co-operation.
8. That, the federal government should begin developing plans, with the assistance of any interested provinces, for the creation and operation of a joint national sales tax collection agency to be responsible for collection of a National Sales Tax at such time that a substantial number of provinces had joined in a national sales tax.

C) The “Tax on Tax” Issue

A number of witnesses expressed concern about the question of double taxation under a dual system of GST and provincial sales tax and urged that it be avoided. This would mean changing the “tax on tax” situation which already exists under the present federal sales tax. When goods are sold at retail, the selling price includes the FST, which is normally not declared separately. Provincial sales tax is then levied on the FST-included selling price, and hence PST revenues are increased by means of a “tax on tax”.

The provinces have not indicated to Ottawa whether they will charge PST on the price of goods and services before or after GST is applied. But there are legislative, economic and administrative reasons why they are likely to maintain the status quo and continue to impose PST on the retail selling price including federal sales taxes. These include:

Legislative: Although several provincial ministers told the Committee in private that they would not levy their PST on top of the GST, this is in fact the practice in every province which now has a provincial sales tax. The provincial statutes are uniform in requiring that PST be levied after all other relevant taxes have been calculated, i.e. on the tax-included value of taxable goods and services, and a

number refer specifically to federal excise and customs taxes in this category. One reason why the draft legislation is named the *Excise Tax Act* rather than the *Goods and Services Tax Act*, may have been to avoid requiring the provinces to amend their sales tax laws with the introduction of the GST.

The *Ontario Retail Sales Tax Act* imposes retail sales tax on the “fair value” of any purchase and defines fair value to include

“(b) the cost of, or charges for, customs, excise, mailing, handling, delivery or transportation, whether or not such are shown separately in the books of the vendor or on any invoices or in the computation of the sale price.”

Quebec’s sales tax is levied on the “purchase price” of any movable property and states that this price

“includes the charges for the installation of the thing sold, for service, for customs, for excise and for transportation, even when such are not shown separately on the invoice or in the vendor’s books.”

Newfoundland’s sales tax is based on a “fair value” which includes

(v) customs and excise duties and sales tax payable to Her Majesty in right of Canada.”

These statutes would have to be amended in order to avoid imposing PST in the respective province on top of the GST.

Economic: A province which decided to calculate PST on the price of goods and services before the GST had been added in would suffer a significant loss of tax revenues. The reason is that if, as is expected, producers and other businesses in the distribution chain pass on the elimination of the manufacturer’s sales tax, their selling prices will be reduced substantially. This will reduce the taxable base for PST by an average of around 7 to 10 percent, depending on the type of good.

Hence if a province applies its sales tax before the GST has been added in, its PST revenues will fall by 7 to 10 percent on goods currently subject to the manufacturer’s sales tax. Provincial governments would have to raise their rate of sales tax, raise other taxes, or cut spending in order to maintain their fiscal position. A likely response would be for a province to add one percentage point to its rate of sales tax, thus raising about the same amount of revenue as it would lose by leaving the GST out of its sales tax base.

The alternative is for a province to maintain its present system and apply provincial sales tax on top of the GST. In such a case, the province’s revenue will tend to increase by a modest amount from the current situation. The province will have applied a “tax on tax” more visibly than under the present system, but the political cost of double-taxing is likely to be much less than that of raising the province’s sales tax rate with no net benefit in return.

Administrative: The most compelling reasons why it is difficult to avoid double-taxing are the cost, complexity and annoyance entailed in charging GST and PST separately. A simple illustration shows the problems that could ensue:

Jennifer Smith goes to the hardware store to buy a stepladder in April of 1991. The ladder she wants costs \$49.95 before GST, a price which included federal sales tax of \$3.92. If it was sold the old way, PST of \$4.99 would be computed and added in to make a final price of \$54.94.

With a 9% GST, the price is still quoted as \$49.95, GST included. But times have changed. At the sales counter the clerk writes the price on the invoice and then calculates the GST component, which is 9/109 times the selling price, or \$4.12. Then he deducts that amount from the selling price in order to compute the the pre-GST selling price for the ladder of \$45.83.

Then, while people in the line-up get restless, he calculates PST of \$4.58; adds it to the selling price pre-GST; adds the GST back in; and gives Ms. Smith a bill for \$54.53. Much to the dismay of the people behind her, Ms. Smith is not sure that the calculation was correct and insists that it be done again before she finally takes her ladder away.

The possibilities for confusion and for acrimony in dealing with customers are obvious, particularly in smaller stores which are less likely to have sophisticated point of sale equipment. Restaurants already have problems in explaining their bills in provinces where liquor is taxed at a different rate of PST than food, and this problem could become universal.

The Committee believes, on the basis of these arguments, that it would be unwise and impracticable to try to avoid double-taxing by having GST and PST calculated independently on the basic price of goods and services. For retail sales, it will be more practical in most cases for prices to be quoted including GST, and for the provincial sales tax to be added in at the time of sale. This also leaves retailers with more flexibility in their pricing, so that the ladder, for example, can still be priced at \$49.95 when a full 9% tax would take it to \$50.17.

The Committee believes it would be useful to have uniformity in how the PST is to be applied, but that is not an issue which can be resolved by the federal government. It would be helpful if the provinces could be encouraged to meet and to decide on a common standard, i.e., at what point to calculate the PST, rather than have a decision imposed on them. In practice, however, there will be uniformity if the provinces simply leave their legislation unchanged.

A related issue is whether suppliers should be required to quote prices of goods pre-GST or with tax included. The Committee does not believe that this matter needs to be regulated, beyond the requirement of a visible sign at the cash register indicating whether prices are quoted including or excluding GST.

In the extent that prices were quoted pre-GST, this would avoid double taxation and ensure greater visibility for the GST because it would be computed on every sale. The problem that this entails is that quoting prices pre-tax may be confusing to shoppers. In the example of the hardware store mentioned above, for example, the stepladder price at \$45.83 pre-tax will cost \$54.53 after the provincial and federal sales taxes are added in - a difference of almost \$10.00.

In European countries with VAT, merchants have generally had the freedom to quote prices either including or excluding the tax. The overwhelming choice now is to quote prices with VAT included. This seems to be simpler to administer and easier for customers to understand, but at the expense of possibly making the sales tax less visible.

The Committee shares the concern of witnesses on the issues of visibility and of double-taxing, but believes that some of the suggested solutions are too complex to be workable. It is satisfied that the GST will be a visible tax if customers are informed by signs in retail stores, and on invoices, as to how the GST is being applied by the particular vendor. This issues is also discussed in Part C, Chapters 2 and 5.

The Committee also notes that the ultimate solution to the problems of visibility and double-taxing lies in a national sales tax. Such a tax would be more visible than the FST or even than the new GST, and no double-taxing would be involved because it would be imposed in each province at a combined federal-provincial rate.

Therefore, the Committee recommends:

9. That, no attempt should be made by the federal government to have the provinces change their present practice, whereby provincial sales tax is computed on top of the price of goods and services, including the federal sales tax or Goods and Services Tax.
10. That, the provinces should, however, be encouraged to develop a uniform standard for how Provincial Sales Tax should be applied to the price of goods and services which are also subject to Goods and Services Tax.
11. That, retailers should be required to inform consumers by signs and other means as to whether prices of goods or services in a retail establishment are quoted including or excluding Goods and Services Tax, but there should be no requirement that prices be quoted pre-tax with Goods and Services Tax added separately.
12. That, the federal government should continue efforts to get the provinces to join in a national sales tax, as this is the ultimate means of resolving the issues of double-taxation and of lack of visibility of the Goods and Services Tax.

ECONOMIC AND DISTRIBUTION ASPECTS

The GST as proposed in the Technical Paper will apply at a rate of 9% on a wide range of goods and services consumed in Canada. Unlike the existing FST, which is levied at one point only, the GST will apply to sales throughout the production and distribution chain. Sellers, however, will receive full credit for taxes paid on their purchases, so that in the end only the final consumer will pay the tax.

The coverage of the GST will be much broader than that of the existing FST, but still well short of being fully comprehensive. Basic groceries, prescription drugs and medical devices will be "zero-rated", or tax free. In addition, most health and dental care services, most supplies by charities, long-term residential rents, and most financial services will be tax exempt. (As explained later on in the report, tax exempt sales are not tax free: exemption means that the seller collects no tax on the supply of a commodity, but also cannot claim a credit for taxes paid on the inputs into that commodity.) On the whole, the FST will apply to about two-thirds of total consumer spending on goods and services. The existing FST applies to roughly one-third of total consumer spending, so that even with the proposed exclusions, implementation of the GST would result in considerable broadening of the federal sales tax base.

A) Fiscal Impact

At the proposed 9% rate, the Department of Finance estimates that the GST will yield \$24 billion in 1991, its first year of operation. This amount is net of rebates to the public and non-profit sector (provided so as to ensure that the tax burden on this sector will not rise with implementation of the GST), to small business (to defray administration expenses), and to housing (to dampen the impact of the GST on house prices at the mid to lower-cost end of the housing market). Of this amount, \$18.5 billion will replace revenues that would have been generated by the existing FST. The remaining \$5.5 billion will be used to fund an enriched sales tax credit (\$2.4 billion), a reduction in the middle income tax rate from 26% to 25% (\$0.7 billion), indexation of transfer payments and income taxes resulting from the anticipated price impact of the GST (\$2 billion), and increased tax administration costs (\$0.2 billion). The net effect of substituting the GST for the existing FST is thus estimated to be fiscally neutral.

At the same time, and somewhat paradoxically, the government cites a reduction in the federal budget deficit as one of the main goals of the proposed GST. To understand this paradox it is necessary to be clear on the meaning of fiscal neutrality in this context. First, it refers only to the direct impact of the GST. It excludes therefore the fiscal dividend that will accrue to the government from the additional economic growth that is anticipated to result from the substitution of the GST for the existing FST.

Second, the fiscally neutral result is based on a “mature” system, with full adjustment for indexation of income taxes and transfer payments triggered by the price impact of the GST. Full adjustment for indexation, however, occurs with a three year lag. Thus in the first two years of the GST regime, indexation costs will be considerably lower than the \$2 billion factored into the calculations that show no net yield from this new tax. Moreover, the indexation requirements are calculated on the basis of the initial price impact of the GST, rather than on its long-run price effect. Because the GST is expected to increase economic efficiency over time, its long-run effect on the price level will be lower than its short-run impact. Consequently, the permanent increase in indexation costs resulting from the implementation of the GST will be lower than the increase estimated on the basis of the GST’s initial price impact.

Finally, fiscal neutrality assumes that the existing FST would in fact generate the increased revenues implied by the recent increases in federal sales tax rates. However, as the Technical Paper acknowledges, this is a dubious assumption. The FST system is so leaky that any projections of revenues from it that are based on the assumption that the sales tax base will remain intact are purely academic.

In short, viewing the proposed GST package more realistically and looking beyond its immediate impact reveals that it will have a significantly positive effect on the federal fiscal balance. Given the size of the federal deficit, this is not an undesirable result.

B) Price Effects

The Department of Finance estimates that introduction of the GST will result in a one-time increase in the CPI of 2.25%. The impact on the GDP deflator, the broadest measure of price changes in the economy, is estimated to be about half as large as for the CPI. The reason for the much larger increase in consumer prices is that the GST will be imposed entirely on consumption commodities, whereas under the current FST a large portion of all revenues is collected from levies on business inputs.

These official estimates of the price impact have been challenged as excessively optimistic because they assume that firms will pass on to consumers the full savings from the elimination of the FST. A less than full passthrough of the FST savings would of course imply a higher initial price impact, but estimates of a 9% impact or even higher that we heard from some witnesses are clearly alarmist. Since the GST will apply to roughly two-thirds of total consumer spending, even with the extreme assumptions of full forward shifting of the GST and no price reductions from the elimination of the FST, consumer prices would rise by about 6%.

But the assumption of no price reduction from the elimination of the FST is not a tenable one. For every configuration of demand and costs facing a firm, there is a price at which the firm can maximize its revenues or profits. That optimal price will change when either the cost or demand structure facing the firm changes. A firm that failed to lower prices in response to a reduction in its costs would fail to maximize profits. Out of self-interest,

therefore, sellers will want to lower their prices to reflect the removal of the FST: the more intense the competition in particular markets, the larger the price reduction will be.

The same argument applies for cost increases. Sellers will of course want to pass on fully the new GST levy but, depending on prevailing market conditions, they may not always be able to do so. Hence, while the assumption of full passthrough of the FST savings may be overly optimistic, the assumption that the GST will be fully shifted forward on to higher prices may be viewed as excessively pessimistic. On balance, there are no *a priori* grounds to question the reasonableness of the GST price impact estimates derived by Finance.

A more important and difficult question is whether the effect of the GST on prices will be limited to a one-time increase in the price level or whether it will lead to subsequent rounds of price increases, or higher rates of inflation. The answer will depend on many factors, including the state of the business cycle at the time that the GST is introduced, the response of labour to the initial price impact, and the monetary policy adopted by the Bank of Canada. In principle, there is no compelling reason for inflation to rise as a result of the introduction of the GST, and the evidence from international experience suggests that, in most countries, the introduction of VAT has had little or no effect on retail prices. (¹)

There have been exceptions to this general experience however, and, depending on how the transition is handled, Canada may become one of them. All representatives of organized labour who appeared before us emphasized that unions will push to make up for the increase in prices through higher wages. The government may wish of course that labour sees through the initial price impact of the GST and accept the temporary loss in purchasing power that that entails, but it would be wishful thinking to expect that that will happen. The way to limit an inflationary response from labour is to limit the provocation: the GST-induced price impact. The GST package, as proposed, needlessly compounds that impact.

The package can be altered to reduce its attendant inflationary risk without affecting its fiscal integrity. As indicated in the Technical Paper, and as Finance officials stressed in testimony before the Committee, the direct impact of the GST on the CPI overstates the effect on the real purchasing power of consumers, for it fails to reflect the gains to consumers through an enriched sales tax credit and lower personal income taxes. On average, real disposable incomes will fall only about one percent. This one percent is the extent of the net transfer of resources from households to government resulting from the introduction of the GST. The remaining 1.25 point increase in the CPI represents the redistributive effect of the GST package. By reducing the magnitude of the redistribution, one can lower the price impact.

Some redistribution is necessary to protect lower income households from a higher tax burden as a result of the implementation of the GST. But the middle income tax rate reduction serves little purpose. It accrues entirely to middle and upper income households, and one may consequently be tempted into thinking that these households are thereby made better off. But as figures in the Technical Paper show, these are precisely the households that will have to pay for the additional revenues from the GST. Any savings they get from the income tax reduction will be fully offset by the increases in the GST required to pay for those

savings. These households, therefore, will derive no net benefit from the income tax reduction, but will have to bear an additional inflationary risk owing to the shift from income to sales taxation that that reduction entails. In the Committee's view, this does not amount to a good trade off, and the overwhelming evidence that we received suggests that it has few supporters.

Because of the interaction of the GST rate with the GST offsets (the sales tax credit and indexation of income taxes and transfer payments), the one point reduction in the middle income tax rate can have a much larger effect on the GST rate than one would expect on the basis of the revenues associated with that single income tax point. The \$700 million involved are equivalent to a little more than one-quarter point of GST. A drop in the GST rate, however, together with a corresponding fall in the GST price impact, will generate savings in GST credit requirements and indexation payments. Taking these into account, withdrawal of the middle income tax reduction would allow the GST rate to be lowered by about two-thirds of a percentage point and still remain revenue neutral.

In addition to its favourable price impact, not proceeding with the middle income tax rate reduction would also have the advantage of leaving provincial revenues intact. Pursuant to agreements with nine of Canada's provinces, the federal government collects income taxes on behalf of all provinces except Quebec. These agreements require that the participating provinces have the same income tax as the federal government, so that provincial tax liabilities are determined as a percentage of the federal taxes payable. A reduction in federal income tax revenues therefore would imply a corresponding decrease in provincial revenues that the provinces would have to make up from other sources. Not proceeding with the proposed income tax reduction would eliminate this difficulty.

Therefore the Committee recommends :

- 13. That the government not proceed with the proposed middle income tax rate reduction and that the savings be used instead to bring about a lower GST rate.**

To avoid misunderstanding, we hasten to add that our recommendation on this point should not be interpreted as reflecting a general opposition to income tax reductions for middle income households. It stems instead from concerns we have about any measures that may compound the price impact of substituting a GST for the existing FST and that may thereby complicate the transition into the new sales tax regime. In short, our opposition is related to the timing of the proposed income tax rate reduction, rather than to the reduction *per se*. The announced intent to reduce income taxes for middle income households should proceed at a later date, as circumstances permit.

C) Effect on Employment and Growth

The Committee heard evidence from four groups, in addition to the Department of Finance, that had analyzed the economic and fiscal implications of the GST through simulations of its effects by means of macroeconometric models of the economy:

- The Conference Board
- The Economic Council of Canada
- Informetrica
- University of Toronto Institute for Policy Analysis

There was agreement among all of these groups that implementation of the GST would be highly beneficial to the Canadian economy in the long-run, resulting in a more efficient allocation of resources, larger output and higher consumer welfare.

Benefits derive from three sources:

1. A reduction in the variation of effective tax rates across commodities, thereby resulting in prices that reflect more accurately the economic costs of production.
2. Elimination of the tax burden on business inputs, leading to increased capital accumulation, and thereby to higher labour productivity and larger output.
3. Improvements in the international competitiveness of Canadian producers through the removal of the tax on exports and the FST bias in favour of imports.

Estimates of the overall effects of the GST differ. Results derived by the Department of Finance using a general equilibrium model of the economy show that implementation of the GST will increase real output of the economy, over time, by 1.4%. Of this increase, 0.9% is due to enhanced efficiency and 0.5% to a larger capital stock. General equilibrium models involve many assumptions that one can disagree with and not everyone would accept these Finance estimates as the final word on the matter. Generally, however, the disagreement is over the magnitude of the long-term gains, not over whether there will be gains in the long-run.

The transition to this happy long-run, however, may be difficult. The Technical Paper indicates that the benefits from the implementation of the GST can begin almost immediately. It predicts 0.2% higher real output in 1991, rising to 0.7% by 1994. This higher output leads to 35,000 additional jobs in 1991 and to 60,000 additional jobs in the period 1992 to 1994. These results, however, hinge crucially on a major assumption: that there will be no wage response to the price impact of the GST, other than marginal increases resulting from indexation of wages through COLA clauses. If labour's response is not so benign, there may be serious adverse economic consequences during the early states of the GST. As the Technical Paper states:

An inflationary price-wage response to the GST ... would delay realization of the benefits and result in less favourable employment and output effects during the transition. Unit labour costs of Canadian firms would rise relative to those of foreign producers, offsetting the direct competitive advantages brought about by replacing the FST with the GST. Instead of a net export gain, net export losses could occur in the transition period. Rising inflation would also induce upward

pressure on short-term interest rates, which would moderate aggregate demand.
(p. 41)

In addition to the wage response, monetary policy is the other major factor in the determination of the effects of GST during the transition years. A strong wage response to the GST price impact would create a difficult policy dilemma for the Bank of Canada. Full accommodation by the Bank not only of the direct price impact of the GST but also of the indirect price effects stemming from wage increases would usher the economy into a prolonged wage-price spiral. Such an accommodative monetary policy stance is unlikely, given the emphasis that current Bank policy places on the goal of price stability.

A monetary policy that resisted wage increases would cause interest rates to rise, dampening aggregate demand and leading to lower output and to employment losses. The government deficit would also rise under the untoward combination of higher interest costs and reduced tax revenues.

An illustration of the unpleasant possibilities that may arise is shown in the following table which presents the results of an analysis by Toronto investment dealer Wood Gundy. Wood Gundy assumed that wages would rise by one-half the expected GST price impact and that, in order to dampen attendant inflationary pressures, the Bank of Canada would raise short-term interest rates by 200 basis points. Under this scenario, the CPI jumps by 3% in 1991, rather than by 2.25% projected by Finance. Real GDP declines by 0.6%, employment falls by 75,000 jobs, and the federal deficit rises by \$2.9 billion.

**Comparison of the Short-Run Economic Impact of GST:
Department of Finance and Wood Gundy Economics
(Percent change except where noted)**

	Department of Finance	Wood Gundy
Real GDP	0.2	-0.6
Nominal GDP	1.5	1.1
CPI Inflation Rate (Percentage Points)	2.3	3.0
GDP Deflator	1.3	1.7
Employment (000s)	35	-75
Budgetary Balance (\$billions)		-2.9

It is important to note that the adverse effect on economic growth, employment and the deficit projected by Wood Gundy derive from the assumed tightening in monetary policy, not from the introduction of the GST *per se*. There is nothing inherent in the GST itself that should cause the economy to become less stable. As argued by Professors Peter Dungan and Thomas Wilson in a submission to the Committee on the macroeconomic effects of the GST:

The allocative efficiency gains of sales tax reform are achieved if the relative tax burden is equalized across a broad range of consumer products. The dynamic gains from increased capital formation are achieved by eliminating direct and indirect sales tax burden on business fixed investment. Neither of these results, by itself, would trigger a price-wage spiral. A price-wage spiral is likely to develop because the present phase 2 reforms will increase the aggregate sales tax burden on consumption. If the reform package were modified to reduce or eliminate this increase, the macroeconomic adjustment problems would be attenuated or would largely disappear.

Of course, since we cannot know for certain the response of private agents or of the Bank of Canada to the introduction of the GST, there is no way to say for certain what the short-term effects of the GST are going to be. It stands to reason, however, that the greater the initial price impact of the GST, the greater is the risk that it will lead to an inflationary price-wage response and, hence, to other unfavourable economic consequences. Setting the GST at a rate that minimizes the initial price impact would reduce the likelihood of a wage-price spiral and avoid the transitional problems associated with the introduction of the GST.

At the same time, in light of the government's fiscal position, it is important that the reduction in the tax rate not be made at the expense of deficit reduction. A higher deficit, in addition to constraining the government's fiscal capacity to act, would have an inflationary effect that would tend to counteract the anti-inflation impact that a lower GST rate is intended to achieve. The revised GST package that we propose below balances both considerations: it eases the transition to the new sales tax regime without undermining the government's deficit-reduction efforts.

FOOTNOTES

- (1) OECD, op. cit., p. 138.

The alternative GST package that we propose would amend the GST package proposed in the Technical Paper as follows:

- Lower general GST rate from 9% to 7%, except for real estate sales where the applicable rate will be 5%.
- Expand the GST base to include taxation of real estate trade-ups, as discussed in a later section of the report. At the proposed 5% rate, the estimated revenues from this base broadening is \$1.6 billion.
- Withdraw the middle income tax rate reduction.
- Increase excise taxes on alcohol and tobacco products to recapture revenue losses that would otherwise result from the substitution of a 7% GST for the existing FST. These are estimated at about \$500 million⁽¹⁾.
- Lower GST credit proportionate to the reduction in the GST tax burden on lower income households.

A) Price Impact

Our proposal to tax all real estate trade-ups is developed fully in Part C, Chapter 7 of the report, which deals with real property. Essentially, it entails application of GST to any net increases in the value of real estate acquired by a purchaser. To illustrate, a person who sells a property for \$100,000 and acquires another property for \$150,000 will be taxed at a GST rate of 5% on the \$50,000 trade-up involved in the two transactions. As Chapter C-7 points out, this proposal removes some of the most serious problems associated with the Technical Paper proposal to confine the tax to new construction only, including significant distortions in the housing market as a result of taxing houses differently depending on whether they are new or used, rented or owner-occupied, moderately priced or expensive. From the perspective of the macroeconomic impact of the GST, however, the attraction of broadening the base in the way that we propose is that it can generate additional revenues without affecting price levels. The proposal makes it therefore possible to reduce the GST rate, and thereby lower the price impact of the GST, without sacrificing the fiscal goals of tax reform.

This point is sufficiently important to deserve some elaboration. Under the Technical Paper proposals, GST will apply to newly constructed houses at a rate of 9%, but a rebate of 4.5% will be provided to houses costing \$310,000 or less. The rebate will be phased out beginning at houses costing \$350,000 or more, and will be reduced to zero for houses priced above \$400,000. To qualify for the rebate, the new house must be the purchaser's principal residence. Thus not only high-priced homes but also all new rental accommodation dwellings will bear a GST rate of 9%. On average, new dwellings will be taxed at about 6.9%.

According to estimates by the Department of Finance, the current effective FST rate on new dwellings is 4.2% of the selling price. Thus, under the Technical Paper proposals, taxation of new housing, both rented and owner-occupied, would rise by about 2.7 percentage points.

What effect will this tax increase have on housing prices? The answer depends on the sensitivity of the demand for and supply of new houses to price changes. On the assumption that neither demand nor supply is completely insensitive or infinitely sensitive to price changes (in the economists' jargon, neither has an elasticity of either zero or infinity), the tax increase will be split between buyers and sellers, i.e. some will be absorbed by the land-owners or builders in the form of lower returns and some will be passed on to buyers in the form of higher prices. New house prices therefore will increase under the Technical Paper proposals, the increase being greater the more price sensitive the supply of new housing is relative to demand.

In most analyses of this issue, the assumption made is that, within the relevant range, the cost of bringing new houses on stream is constant, which is equivalent to saying that the supply of new houses is infinitely elastic. Under this assumption, a tax on new houses is fully passed on to the purchasers. The tax has the effect of reducing the quantity of housing demanded, but since this reduction does not reduce the cost of new houses, it will not reduce the price of houses net of the tax. House prices, therefore, inclusive of the tax will rise by the amount of the tax increase. On this basis, the Technical Paper proposal will lead on average to a 2.7% increase in the price of new houses.

But the price effect of the proposed GST will not be confined to new houses only: it will spread to the existing housing stock as well. This follows from the fact that newly-constructed and existing houses are fairly close substitutes. Hence, an increase in the price of new houses will shift demand towards existing houses, pushing their prices higher. The upward pressure on existing houses will continue until the relative prices between old and new houses that existed prior to the tax increase is re-established. Prices of existing houses therefore will rise by the same proportion as those of newly constructed houses, even though GST will not apply to the former. Existing house-owners will reap a windfall gain.

Extending application of the GST to existing houses would not alter this price impact. The tax would shift some demand from the resale to the new house market. If the additional construction does not raise land or construction costs, as assumed, prices in the new housing market would remain unaffected. The demand shift would continue until prices in the resale and new house markets are again equalized. Compared to the situation where only new houses are taxed, there would be more residential construction and fewer house resales, but house prices would remain the same.

This result is illustrated in Figure 1 below. The supply of new houses is shown as a horizontal line, reflecting the assumption that the per unit cost of housing does not rise with the quantity of housing produced. The supply of existing houses is positively sloped on the premise that as housing prices rise the number of house owners willing to put their houses up for sale rises. The equilibrium situation in the absence of a tax is at point A, where the demand schedule for houses intersects supply. A quantity Q^1 of houses is bought and sold at

a price of P^1 . Of the quantity Q^1 , Q^{R1} consists of housing resales and $Q^{R1}Q^1$ of newly-constructed houses.

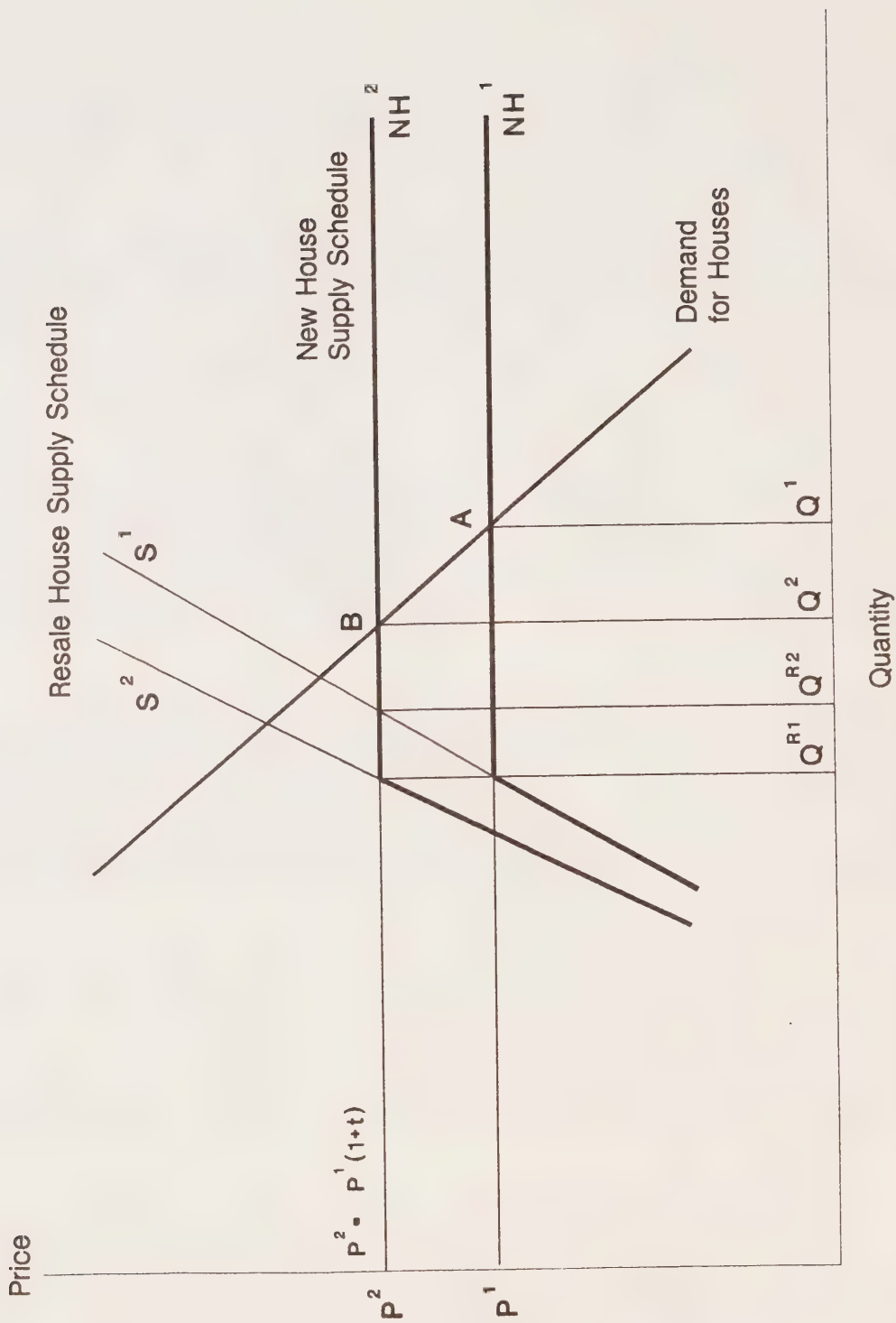
The imposition of a tax at the rate t on new houses will raise the supply schedule for new houses to NH^2 . Housing prices rise to P^2 and housing demand falls to Q^2 . Housing resales rise to Q^{R2} and new house sales fall to $Q^{R2}Q^2$. Note that construction falls by more than the reduction in demand, the difference being made up by an increase in housing resales induced by the increase in the price of resale houses.

Suppose now that a tax of t is also imposed on resale houses. The supply of resale houses shifts by the amount of the tax to S^2 . Housing sales remain unchanged at Q^2 , but the distribution of sales between new and existing houses changes. The sale of existing houses falls back to Q^{R1} , while sales of new houses rise by $Q^{R1}Q^{R2}$ to $Q^{R1}Q^2$. Thus, taxing existing houses on the same basis as newly-constructed houses would have the effect of increasing construction activity but would result in the same price impact as if new houses alone were taxed.

Consider now the Committee's proposal in light of the foregoing. We propose to tax all real estate, and therefore newly-constructed houses as well, at 5%. On average, this is nearly two percentage points lower than the corresponding rate under the Technical Paper proposals. The price impact of our proposal will be correspondingly lower. As already shown, extending the application of GST to existing structures in addition to new construction does not affect this result. Our proposal, therefore, would have the effect of lowering the GST impact on real estate prices.

The reduction of the general GST rate to 7% from 9% also lowers the GST price impact on other consumer goods and services. In total, the price impact of all the measures we propose should be about half the impact anticipated under the Technical Paper GST package. That is, we estimate an increase in the CPI of just over a one percentage point and virtually no change in the GDP deflator, the broadest measure of price changes in the economy. Thus in terms of the most comprehensive measure of inflation, our proposed GST package will have no inflationary impact.

Figure 1
The Effect on the Housing Market of Taxing Housing Sales



B) Fiscal Implications

The direct fiscal implications of the revised package are summarized in Table B.2 below. The measures we propose are expected to generate \$20.9 billion in 1991, net of the small business administration fee and rebates to the MUSH and non-profit sectors. As proposed in Chapter C-4 of the Report, the small business administration fee will be payable to registrants with annual sales from taxable and zero-rated supplies of under \$2 million. It will be equal to 5% of the registrant's GST liability to a maximum of \$600 annually, and is estimated to cost the government, in terms of revenues foregone, \$300 million a year.

Fiscal Impact of 7% GST Option (\$ billion)

<u>REVENUES</u>		<u>EXPENDITURES</u>	
GST at a 7% general rate and 5% for real estate transactions, TP base	18.8*	FST	18.5
		GST Credit	1.2
Real estate base expansion	1.6	Indexation	1.0
Alcohol and Tobacco	<u>0.5</u>	Administration	<u>0.2</u>
TOTAL:	20.9	TOTAL:	20.9

* Net of small business administration fee of \$300 million and of rebates to MUSH and the non-profit sectors

The revenue losses of approximately \$5 billion from the reduction of the general GST rate to 7% from 9% are made up through the expansion of the tax base (\$1.6 billion), increased excise taxes on alcohol and tobacco (\$0.5 billion), withdrawal of the middle income tax rate reduction (\$0.7 billion), and reduced GST credit and indexation costs (\$2.2 billion).

We measure fiscal neutrality on the same basis as the Technical Paper. In other words, we take into account only the direct impact of the GST on government revenues, assume full adjustment of indexation payments, and calculate indexation costs on the basis of the initial price impact, rather than the long-term effect on prices, which is lower. Accordingly, as discussed above in respect of the GST package proposed in the Technical Paper, when one takes into account the fiscal feedback from the impact of the package on the economy and adjusts indexation costs to incorporate savings in the early years from partial indexation and in later years from lower inflation, the actual effect of the package on the federal budget is significantly positive. In light of the size of the federal deficit, it is the Committee's view that the additional revenues should be directed to reducing the deficit, and not be diverted to new program spending.

Therefore the Committee recommends:

14. That any revenues from sales tax reform in excess of revenues required to finance replacement of the existing FST and associated sales tax credit increases and indexation payments should be used to reduce the government deficit.

C) Lower Adjustment Costs

In other respects, as well, the GST package we propose retains all of the advantages of the Technical Paper proposal and adds to them. The long-term efficiency gains expected to result from the elimination of the FST and its replacement by a more neutral tax will be fully captured. Indeed, the gains from the revised GST that we propose should be marginally greater. This is so for two reasons. First we broaden the GST base, thereby improving the neutrality of the tax. Second, and more important, by lowering the rate, we reduce the magnitude of the economic distortions inherent in every tax system (other than poll taxes).

The main advantage of our revised GST package, however, is that it can ease the transition to tax reform. At the 2.25 per cent price impact of a 9% GST rate, the risk of an adverse wage response leading to a painful price-wage spiral is very real. The economic costs of such an outcome, as already discussed, would be enormous. As indicated above, we estimate the price impact of our revised package to be less than half that of the GST at 9%, or a little over one percentage point increase in the CPI and virtually no change in the GDP deflator. This is a much smaller impact for the economy to absorb and the risk of provoking an inflationary spiral is thereby considerably lessened. As a result, the long-run benefits of tax reform can be more speedily attained and the short-term adjustment costs are substantially avoided.

Therefore the Committee recommends:

- 15. That the general GST rate be lowered from the proposed 9% to 7%.**
- 16. That excise taxes on alcohol and tobacco products be raised sufficiently to recoup the revenue losses that would otherwise result from the substitution of GST at 7% for the existing FST.**

FOOTNOTES

- (¹) The replacement of the existing 19% FST on alcohol and tobacco products by the proposed 9% GST would result in a loss of tax revenues from these products of about \$200 million. (The revenue reduction, from about \$1.4 billion to \$1.2 billion, is proportionately much less than the rate reduction, owing to an offsetting increase in the tax base on which GST will apply.) An additional \$300 million revenue loss would result from the GST rate reduction to 7% from 9%. There is no compelling reason of course to tie the replacement of the FST with lower taxation of alcohol and tobacco. A number of submissions to the Committee, including the one by the Canadian Medical Association, urged that offsetting measures be taken to ensure that implementation of the GST does not result in lower taxation of these products.

Canada has had a system of refundable sales tax credits since 1986. Currently, the maximum benefits are \$100 per adult and \$50 per child payable to families with net incomes of less than \$16,000. In 1990 benefits will increase to \$140 per adult and \$70 per child, and the income threshold will rise to \$18,000.

Under the Technical Paper proposals, a new GST credit will replace the existing federal sales tax credit. The benefits will be \$275 per adult and \$100 per child payable in full to families with net incomes of \$24,800 or less, the same level as that of the refundable child tax credit. As with existing sales tax credits, benefits will be reduced at the rate of 5% of net income in excess of the \$24,800 threshold. The GST credit will be paid quarterly; the existing credit is paid once a year. As many of our witnesses observed, these amounts represent a substantial enrichment of the present system of providing assistance to lower income households.

A) The Single Person's Credit

Two new features in the GST credit system are directed to single parents and single individuals. First, single parents will be entitled to claim a full adult credit for one dependant child. Second, single individuals, including single parents, will be able to claim an additional credit of up to \$140. The reason for the single credit is to recognize the fact that there are economies of scale to maintaining a household and that therefore single-member households incur proportionately higher costs than larger households.

An unusual feature of the proposed single person's credit is that it rises with income. More specifically, this credit is payable at 2% of net income in excess of \$6,175. Thus a single adult with a net income of \$6,000 will qualify only for the standard credit of \$275, while a single adult with a net income of \$24,000 will be able to claim a credit for \$415. The rationale provided in the Technical Paper for so designing this credit is to ensure that it is targeted to low-income "singles who maintain their own households and are not dependant on parents or other supporting persons." (Technical Paper, p. 15)

This particular feature of the credit was strongly criticized by a number of witnesses. The most obvious criticism is that, in the interest of excluding some non self-supporting individuals from the supplement, it denies benefits to the most needy households. For example, as the brief by the National Anti-Poverty Organization (NAPO) pointed out, "most minimum wage workers will not receive any benefit from this credit, and no minimum wage worker will receive the full benefit."

Another aspect of the single person's credit that is difficult to defend is that, over a fairly wide income range, the credit rises with income. Here, the question raised by the National Council of Welfare in their submission to the Committee is very pertinent: Why should a single person with an income up to \$24,800 — \$9,900 above the projected 1991

poverty line — receive the full \$140 supplement, while someone with an income well under half the poverty line get no supplement?

One suggestion, made by the National Anti-Poverty Organization (NAPO), for correcting this anomaly in the GST credit is that the single person's supplement be abolished and that the savings be applied to an increase in the basic GST credit for the first adult in any household. This option has several advantages:

- a) it simplifies the GST credit system;
- b) it does not discriminate against the very poor; and
- c) it recognizes that there are extra costs to maintaining a separate household.

Therefore, the Committee recommends:

17. **That the single person's credit be eliminated and that it be replaced by a higher basic GST credit for the first adult in any household.**

B) Income Thresholds

We also received suggestions from a number of witnesses that the the income threshold, or turning point at which credits begin to be phased out, should vary with the size of the household. According to data provided to the Committee by the National Council of Welfare, the \$24,800 threshold proposed in the Technical Paper is about \$10,000 above the projected poverty line in 1991 for single-member households, but nearly \$5,000 below the poverty line for a family of four. Thus single-member households will be receiving the full credit at income levels far above the poverty line, while benefits to larger families will begin to decline at income levels substantially below the poverty line: the larger the family, the wider the gap between the turning point and the poverty line.

On the other hand, while under the TP proposals the turning point is the same for all households, the amount of benefits payable rises with household size. Because the 5% phase out formula applies to the aggregate of the benefits received, as household size increase, the income range over which some benefits are received also rises with family size. To illustrate, under the TP proposals, a family of four will be eligible for benefits up to an income level of \$39,800, which is more than \$10,000 above the projected poverty line in 1991.

In addition, the existing sales tax credit system is characterized by a single income threshold, and this too has a bearing on the choice between a single or variable threshold for the GST credit. While attractive in the abstract, a variable threshold based on poverty lines implies that many low-income single persons would be made worse off by the sales tax reform. This is because the projected low-income line for a single-member household in 1991 is \$14,900, while the turning point for the current sales tax credit system will rise to \$18,000 in 1990.

As a matter of principle, we do not think that the position of low-income households should be allowed to deteriorate as a result of the implementation of the GST. A turning

point at the \$24,800 level proposed in the Technical Paper together with adequate credit amounts would accomplish this aim. We are not prepared at this point therefore to recommend any changes to this aspect of the GST credit.

At the same time, we think that the suggestion that income thresholds for GST benefits be related to family size has considerable merit. Indeed, the issue has relevance not only for the GST credit, but for other social benefits provided by the government as well. It can therefore best be examined within a comprehensive review of the relationship of taxation and social benefits policy.

It is the Committee's intention to undertake such a review before 1991. Among the areas that the Committee will examine at that time will be the appropriate pattern of income thresholds for the sales tax and child tax credits, the determination of the value of the credits and other personal transfer payments, indexation of these benefits to price changes, and the integration of social benefit payments with the income tax systems and its effects on individuals' incentives to work and save. It is not widely recognized, for instance, that although the maximum personal income tax rate is 29%, when the effect of the phase out of the sales tax and child tax credits is taken into account, the effective marginal tax rate for many middle income taxpayers is 36% for federal taxes only, and above 50% when provincial taxes are also included. In addition to the anomaly of having tax rates in middle income ranges much above rates applicable to the highest incomes, the disincentive effects of marginal tax rates at such high levels must also be significant.

C) Indexation

Another feature of the GST credit that was condemned by virtually every submission that addressed this matter is the provision limiting indexation of the credit amounts and the income thresholds to increases in the Consumer Price Index (CPI) in excess of 3%. An implication of this provision is that, as long as annual increases in the CPI exceed 3%, the real value of the credits and the income thresholds will decline by 3% a year, thereby reducing over time both the amount of the credit and the number of persons qualifying to receive it.

The explanation for the partial indexation provided to the Committee by officials of the Department of Finance is that it is part of a general formula, applicable to all aspects of the income tax system, that was introduced in the 1986 taxation year as a deficit reduction measure.

The connection between the income tax system and the sales tax credits, however, is only incidental. Credits are provided in order to reduce the sales tax burden of low income households. Income tax returns are simply used as a convenient means of establishing household income and therefore eligibility for credits.

We note, as well, statements made by the Minister of Finance expressing the government's intent to adjust the credits over time as required so that their value will not be eroded. If that is the intent, there will be no savings from the partial indexation of credits,

and it would be best to incorporate the intent into law and thereby remove the anxiety of those who count on these credits as part of their income.

In any event, if it is considered equitable or desirable to compensate lower income households at the levels proposed for the implementation of the GST, we see no reason for the compensation offered to be so designed that, in the absence of legislative intervention, its value erodes with time. As noted above, the Committee intends to revisit this question when we conduct an inquiry into the income tax and social benefits systems.

The Committee therefore resolves to conduct an inquiry into Canada's tax and social benefits systems, the interrelationship between the two, appropriate methods of indexing them to price changes, their respective purposes, efficacy, and implications for economic performance; and to report its findings to the House of Commons before the end of 1990.

D) Credit Benefits

At the lower GST rate of 7% proposed by the Committee, the sales tax burden on consumers will obviously be lower, and the requirements for GST credits are accordingly reduced. The credit levels proposed in the Technical Paper were designed with the aim of ensuring that sales tax reform does not increase the tax burden of middle to lower income households. In the absence of a thorough review of the social security system that might yield alternative criteria for establishing appropriate GST credit levels, the Committee feels that the principle adopted in the Technical Paper is a good one. The Committee accepted it therefore as the working principle for determining the levels of credits that it proposes below.

As noted earlier, having the same income threshold for the credits regardless of family size favours single person families over larger families. One way of compensating larger families for this disadvantage is to provide for relatively generous child credits. Accordingly, while the Committee proposes reductions in the amounts for adult credits proposed in the Technical Paper, the Committee would leave the child credit amounts intact. More specifically, the Committee recommends:

- 18. That the amounts for the GST credit be set as follows: \$250 for the first adult in the household, \$175 for the second adult, and \$100 per child.**

The distributional impact of the Committee's GST proposals is shown in Tables B.3 to B.8 below. Table B.3 sets out the credit entitlements for various household types at different income levels. The discrepancy in credit benefits between a four-member family with one earner and a four-member family with two earners at income levels above \$25,000 results from an assumption that the two-earner family would have incurred \$3,000 in child care expenses, which would be deductible from gross income to arrive at the net income level on which credits are payable.

Tables B.4 to B.8 show the overall impact of the Committee's proposals relative to the existing sales tax regime. While these tables are largely self-explanatory, a clarification is in order. Column (2) in each of these tables shows the change in sales tax burden resulting from

the substitution of the GST for the existing FST. The estimated changes in tax burdens shown in that column are based on a GST of 7% applied to a base that is the same as that proposed in the Technical Paper. In other words, these estimates do not reflect the Committee's proposal to reduce the GST rate on real property to 5% and expand the base to include real estate trade-ups. Time and resource constraints did not allow us to refine these estimates sufficiently to take the distributional effects of this proposal into account.

Had these effects been incorporated in the results shown in Tables B.4 to B.8, the improvement in the position of low-income households reflected in those results would probably be greater. The reduction in the GST rate from the 7% rate assumed in those tables to 5% for all real estate transactions implies that rental real estate, and therefore rental costs, would be reduced accordingly. Since a greater proportion of low income households than high income households are renters, any measure that reduces the cost of rental accommodation would tend to benefit low income households proportionately more.

The other aspect of the proposal, expansion of the GST base to include all real estate transactions, would have little impact on low income households. As illustrated in the previous chapter, expanding the GST base to include the existing housing market would have the effect of capturing some of the windfall gains that would accrue to existing home owners under the TP proposals. The higher the value of an existing home, the larger would be the windfall. Since investment in home ownership and household wealth are strongly correlated, the additional revenues that would be raised by expansion of the GST base along the lines that the Committee recommends would derive mainly from wealthier households. Low-income households would remain largely unaffected.

On the whole, therefore, the estimates of the overall distributional impact of the Committee's proposals shown in column (5) of Tables B.4 to B.8 probably underestimate the favourable impact that the proposals will have on lower-income families. Those estimates show that the Committee's proposals will improve the economic position of single-member households with incomes below \$25,000 and of families with children and income levels below \$35,000. Families with children, who benefited relatively less than other groups under Stage I of tax reform, will be the major beneficiaries under the Committee's proposals.

Figure 2 illustrates the incidence of the GST proposed by the Committee, net of the GST credits. As that figure shows, net GST payable as a proportion of family income rises steeply for incomes up to about \$40,000 and falls marginally thereafter. For comparison purposes, Figure 2 also illustrates the tax incidence resulting under the Technical Paper proposals and under the current FST system. What emerges from that comparison is that, while the tax incidence under all three systems is virtually proportional at higher income levels, the incidence at lower incomes is much more progressive under the Committee's proposals than under either the current FST or the GST package proposed in the Technical Paper. In other words, Canada's poor would fare better under the Committee's proposals than they would under the Technical Paper proposals or than they do under the existing FST system.

As with the Tables B.4 to B.8, the illustration of the Committee's GST proposals in Figure 2 assumes a 7% GST rate on new residential construction only: it does not incorporate the effects of taxing real estate at 5% and expanding the tax to trade-ups of existing housing stock. Incorporation of these changes would result in a more progressive incidence of the effects of the Committee's proposals than that indicated in Figure 2.

TABLE B.3
VALUE OF GST CREDIT PER HOUSEHOLD

INCOME	SINGLE UNDER 65	SINGLE OVER 65	ONE EARNER TWO CHILDREN	TWO EARNER TWO CHILDREN	ONE PARENT TWO CHILDREN
12,500	250	250			525
15,000	250	250	625	625	525
20,000	250	250	625	625	525
25,000	240	240	615	625	525
30,000	0	0	365	515	415
35,000	0	0	115	265	165
40,000	0	0	0	65	0
45,000	0	0	0	0	0
50,000	0	0	0	0	0
60,000	0	0	0	0	0
75,000	0	0	0	0	0
100,000	0	0	0	0	0

IMPACT OF SALES TAX REFORM ON TYPICAL INDIVIDUALS AND FAMILIES

TABLE B.4
SINGLE WAGE-EARNER UNDER 65

(1) HOUSEHOLD INCOME	(2) CHANGE IN SALES TAX PAYABLE GST - FST	(3) INDEXING	(4) GST CREDIT LESS FST CREDIT	(5) AGGREGATE CHANGE IN TAX: GST - FST
			(in dollars)	
12,500	95	-20	-110	-35
15,000	120	-23	-110	-13
20,000	164	-23	-210	-69
25,000	202	-23	-240	-61
30,000	236	-76	0	161
35,000	263	-58	0	205
40,000	281	-58	0	224
45,000	328	-58	0	270
50,000	357	-58	0	300
60,000	464	-97	0	367
75,000	676	-99	0	578
100,000	917	-99	0	818

IMPACT OF SALES TAX REFORM ON TYPICAL INDIVIDUALS AND FAMILIES

TABLE B.5
SINGLE OVER 65

(1) HOUSEHOLD INCOME	(2) CHANGE IN SALES TAX PAYABLE GST - FST	(3) INDEXING	(4) GST CREDIT LESS FST CREDIT (in dollars)	(5) AGGREGATE CHANGE IN TAX: GST - FST
12,500	102	-114	-110	-122
15,000	108	-66	-110	-68
20,000	135	-66	-210	-141
25,000	179	-66	-240	-127
30,000	191	-110	0	81
35,000	181	-95	0	87
40,000	276	-95	0	182
45,000	312	-95	0	218
50,000	351	-95	0	257
60,000	412	-172	0	240
75,000	412	-172	0	241
100,000	637	-109	0	529

IMPACT OF SALES TAX REFORM ON TYPICAL INDIVIDUALS AND FAMILIES

TABLE B.6
ONE EARNER COUPLE WITH TWO CHILDREN

(1) HOUSEHOLD INCOME	(2) CHANGE IN SALES TAX PAYABLE GST - FST	(3) INDEXING	(4) GST CREDIT LESS FST CREDIT	(5) AGGREGATE CHANGE IN TAX: GST - FST
			(in dollars)	
15,000	86	-63	-205	-181
20,000	89	-63	-305	-279
25,000	99	-63	-545	-509
30,000	129	-127	-365	-363
35,000	143	-127	-115	-98
40,000	184	-127	0	58
45,000	200	-106	0	95
50,000	206	-106	0	101
60,000	283	-115	0	168
75,000	419	-115	0	305
100,000	477	-117	0	360

IMPACT OF SALES TAX REFORM ON TYPICAL INDIVIDUALS AND FAMILIES

TABLE B.7
TWO-EARNER COUPLE WITH TWO CHILDREN

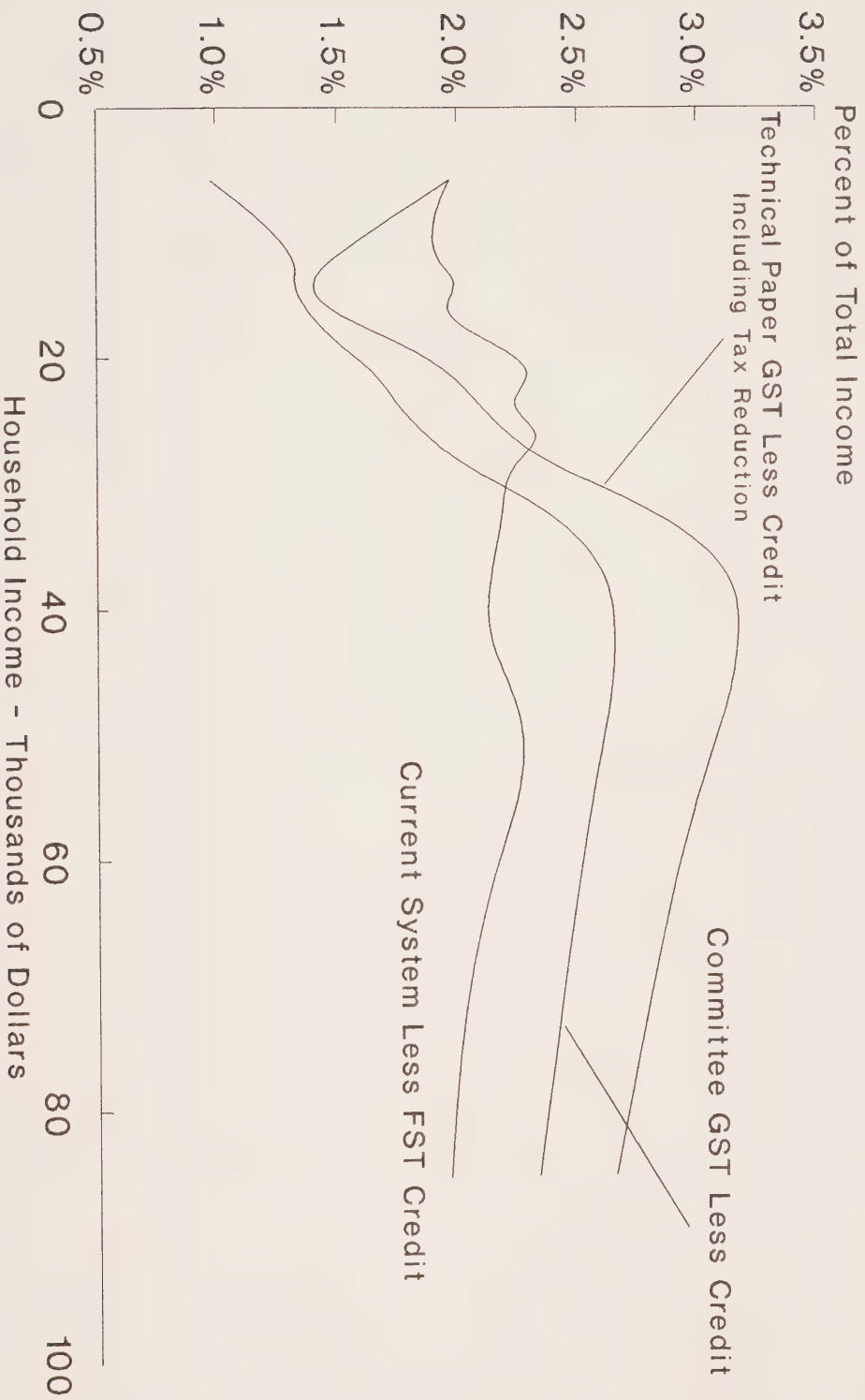
(1)	(2)	(3)	(4)	(5)
HOUSEHOLD INCOME	CHANGE IN SALES TAX PAYABLE GST - FST	INDEXING	GST CREDIT LESS FST CREDIT	AGGREGATE CHANGE IN TAX: GST - FST
15,000	73	-64	-205	-196
20,000	74	-48	-230	-203
25,000	114	-66	-455	-407
30,000	182	-92	-515	-425
35,000	171	-92	-265	-186
40,000	167	-92	-65	11
45,000	207	-71	0	136
50,000	257	-109	0	148
60,000	341	-83	0	258
75,000	461	-83	0	378
100,000	595	-157	0	439

IMPACT OF SALES TAX REFORM ON TYPICAL INDIVIDUALS AND FAMILIES

TABLE B.8
SINGLE PARENT WITH TWO CHILDREN

(1) HOUSEHOLD INCOME	(2) CHANGE IN SALES TAX PAYABLE GST - FST	(3) INDEXING	(4) GST CREDIT LESS FST CREDIT	(5) AGGREGATE CHANGE IN TAX: GST - FST
			(in dollars)	
12,500	94	-63	-245	-214
15,000	115	-63	-245	-193
20,000	149	-63	-270	-183
25,000	204	-63	-495	-353
30,000	216	-89	-415	-287
35,000	198	-127	-165	-93
40,000	239	-127	0	113
45,000	312	-125	0	187
50,000	358	-105	0	253
60,000	490	-128	0	362
75,000	503	-114	0	389
100,000	435	-116	0	320

Figure 2 Federal Sales Taxes Net of Credits
as a Percentage of Total Income
for all Canadian Families



THE DESIGN OF THE GST










The Goods and Services Tax or GST is a tax on final domestic consumption by Canadians. It will be levied at every stage in the production and distribution process, or more precisely every time that a sale is made in that process until the commodity reaches the final consumer. Double taxation will be avoided, however, by allowing sellers to claim a refundable sales tax credit for taxes paid on purchases used in the course of doing business. In effect, therefore, only the value added at each stage where a sale occurs is taxed. Thus the GST is a form of value added tax, similar to value added taxes operated in some 50 other countries around the globe.

The basic operation of the GST is illustrated in Figure 3 below, which follows the production of a washing machine, from the mining of the iron ore to the machine's sale to the final consumer. The illustration assumes a GST rate of 9%, as proposed in the Technical Paper. For simplicity, it also assumes that the mine has no taxable purchases. As the illustration shows, every business beyond the mining stage pays the GST on the full value of its purchase and collects GST on the full value of its sales. It claims a credit for the taxes it pays, and remits the difference to the government. Thus, at the end of the chain, on a washing machine that retails for \$600, the washing machine dealer charges the purchaser \$54, deducts \$36 for GST that the dealer paid the appliance manufacturer and remits \$18 to the government. Since every business prior to the dealer will also have received a credit for the GST that it paid, the only tax raised on the washing machine is the \$54 collected from the final consumer.

The same amount of tax of course could be obtained by a 9% retail sales tax on the \$600 washing machine. This example illustrates the point made in Part A of the Report that, from the perspective of the final consumer the GST is equivalent to a retail sales tax levied on the same aggregate base. In this sense, since we already do have retail sales taxes in Canada, the GST does not represent a new tax but a new way of collecting taxes. As we note in an earlier section of the report, however, the difference in the method of collection is not without significance. In particular, the GST is more effective than a retail sales tax in ensuring that business inputs are relieved from tax and in minimizing losses to the treasury from tax evasion.

While conceptually the GST is fairly simple, its application in particular areas does raise complicating factors. These are discussed in subsequent sections of the Report.

Figure 3
Goods and Services Tax
Basic Operation

	 Purchases		Tax on sales	Input tax credit	Net tax
	 Sales (excluding tax)				
Mine	 \$100		\$9	—	\$9
Steel maker	 \$100  \$300		\$27	\$9	\$18
Appliance manufacturer	 \$300  \$400		\$36	\$27	\$9
Washing machine dealer	 \$400  \$600		\$54	\$36	\$18
Total					\$54

Source : Department of Finance, *Goods and Services Tax : Technical Paper*, Ottawa, August 1989

The basic rules governing the operation of the proposed GST, including the definitions of various terms, are set out in Part C2 of the Technical Paper. This Chapter first sets out a general description of these basic rules and terms and then goes on to examine, in detail, the input tax credit mechanism, documentation requirements and operational aspects. After referral from the House of Commons of the Bill to enact the proposed GST, a detailed technical review of these rules will be carried out.

A) General

Legal liability for payment of the GST is imposed on the purchaser under the Technical Paper proposals. Generally a purchaser of a "taxable supply" of "property" or "services" will be liable to pay GST at the rate of 9% on the "value of the consideration" paid or payable for the "supply".

Under the recommendations proposed by the Committee in this Report, the general rate of tax would fall to 7%.

A "registered vendor" will be obliged, as agent for the federal Crown, to collect and remit the tax on behalf of the purchaser. The importer of record of taxable goods will be liable to pay the tax on such goods at the time of importation.

As a general rule, most property and services supplied by a business for consideration (i.e. money or money's worth) will be taxable under the GST. Exceptions to this rule are most health and dental services, day-care services, most educational services, most supplies by charities, most domestic financial services and certain supplies by non-profit organizations, governments, and other selected public sector organizations which will be "exempt" supplies; basic groceries, prescription drugs and medical devices which will be "zero rated" goods.

B) Timing

Liability for payment of GST on the value of the consideration for a supply will arise on the earlier of (i) the date payment is made or (ii) payment for the supply becomes "due" determined under specific rules. In addition, there is an "override rule". For most suppliers, payment is considered to become due on the date an invoice for the supply is issued, or the date of the invoice, whichever is earlier. Specific rules are contemplated for, among other things, continuous supplies, progress payments and deposits.

No tax is exigible on deposits in respect of a subsequent supply except to the extent the deposit is credited towards payment or forfeited.

The “override rule” provides that liability for GST in respect of a supply (of goods or services) can never go beyond the end of the month following the month in which the supply is completed (e.g., if a service was completed January 1, liability cannot be postponed beyond February 28). For most services, the Technical Paper states a service is completed when it is substantially completed.

C) Filing Requirement

Registered vendors will be subject to a monthly, quarterly, or annual reporting period depending upon sales volume as follows:

- Registrants with annual revenue from taxable and zero-rated supplies of \$6 million or more must file monthly.
- Registrants with annual revenue from taxable and zero-rated supplies of \$6 million or less must file quarterly but may elect to file monthly.
- Registrants with annual revenue from taxable and zero-rated supplies of \$500,000 or less have the further option of annual filing with quarterly installments.

The fiscal year chosen for computing the reporting period may be the registrant’s calendar year or its taxation year for income tax purposes, at its option. A return, together with remittance of any net GST due, will have to be filed one month after the end of the registrant’s reporting period. Refund claims, where applicable, are also to be made in the return; interest on refund claims will be paid from 21 days after the registrant’s return is received by Revenue Canada.

D) GST Terminology

The following terms used in the Technical Paper and Draft Legislation are also used throughout this Report.

(i) *Persons*

The term person will include an individual, partnership, corporation, trust, estate, society, union, club, association, organization and any other body of any kind whatever. Notably a partnership is a person and therefore the partnership (and not the partners) will be required to become registered as a vendor and file returns for GST purposes.

(ii) *Commercial Activity*

The term “commercial activity” will be defined to include generally any business carried on by a person and the supply of real property but will exclude employment and any activity of a person that relates to the making of an exempt supply by that person and any activity without a reasonable expectation of profit.

This is a key concept for the purposes of the GST as characterization of an activity as a commercial activity will determine both a person's obligation to register as a vendor and collect taxes and the person's entitlement to input tax credits in respect of the activity.

(iii) *Goods*

The term "goods" is to have the meaning assigned in the Customs Act. Generally this will include all tangible personal property (personal property you can touch, etc.) and animals.

(iv) *Property*

The term "property" will mean property of any kind whatever but does not include money.

(v) *Real Property*

The term "real property" will, in addition to, its usual meaning include in Quebec immovable property and a lease in respect of such property in Quebec and elsewhere in Canada include any estate or interest in respect of real property. Finally, the term will also include a right to explore or exploit mineral deposits and other natural resources and generally any production royalty with respect to a mineral resource.

(vi) *Personal Property*

The term "personal property" will mean any property that is not real property.

(vii) *Services*

The term "service" will mean anything other than property, money and anything supplied to an employer by an employee in the course of his employment.

(viii) *Supply*

The term "supply" will generally mean the provision of property or service in any manner and includes sale, transfer, lease or disposition of property and any provision of service and any agreement to provide any property or service.

(ix) *Supply Made in Canada*

Special rules are set out in the Draft Legislation to determine whether a particular type of supply is made in Canada. For most services (i.e. other than a service in respect of real property, or a telecommunications service), the supply will be considered to be made in Canada if the service is performed in whole or in part in Canada.

(x) Taxable Supply

A “taxable supply” will mean any supply other than an exempt supply made in the course of a commercial activity.

(xi) Exempt Supply

An “exempt supply” will be defined by Schedule, as discussed further below in Chapter 4, to include specifically defined categories of supplies including most health and dental services, day-care services, most educational services, most supplies by charities, most domestic financial services and certain supplies by non-profit organizations, governments, and other selected public sector organizations.

No tax is levied on the purchase of exempt supplies but a person making exempt supplies is not entitled to an input tax credit for the taxes it pays on the property and services it purchases to make such supplies. In effect a person making exempt supplies is treated as the consumer of the property and service it purchases. The effect of exempt treatment is to tax the inputs but exclude the value added in or exempt supply.

(xii) Zero Rated Supply

The term zero-rated supply refers to supplies of properties or services on which a zero-rate of tax is applied but which entitle the registered vendor supply if such services in the course of a commercial activity to full input tax credits. In effect, these supplies are taxable at a zero rate; therefore no tax is chargeable to the purchaser but the supplier is entitled to a full input tax credit. The supply of services related to the export of goods and of services will be zero-rated. Specifically defined categories of goods including basic groceries, prescription drugs and medical devices will be zero rated.

(xiii) Input Tax Credit

Subject to certain restrictions and requirements, the term “input tax” credit refers to a mechanism to allow a “registered vendor” to recover the GST paid or payable by it on its

(i) purchase of taxable property and services, and

(ii) importation of goods into Canada,

to the extent such property and services were acquired for use in a commercial activity.

(xiv) Registered Vendor

Subject to the \$30,000 threshold for small traders, every person engaged in a commercial activity who makes taxable (or zero rated) supplies of property or services is required to become registered and to collect and remit GST on taxable sales. Status as a registered vendor is also required as a condition to claiming input tax credits.

(xv) Value of the Consideration for a Supply

The term “value of the consideration” for a supply will be defined, generally, to mean the amount paid or payable for a supply. In the case of supplies between related persons it will mean the fair market value of the supply.

(xvi) Exports

Exported property and services will, generally, be “zero rated”. The Draft Legislation lists by schedule the property and services, including exported supplies, that are zero rated.

(xvii) Imports

Imported goods which are neither zero-rated nor exempt will be taxable to the importer of record at the time of importation.

Imported services will be taxed, as such, on a self-assessment basis, where imported for use other than in a commercial activity (i.e. for personal use or in the provision of an exempt supply of property or services). A registered vendor who imports a service for use in making a taxable supply will not be entitled to an input tax credit with respect to the imported service. Therefore, GST will be imposed indirectly on that element of his selling price when the registered vendor makes a taxable supply of property or services.

(xviii) Exempt Suppliers

A supplier of exempt property or services is denied any input tax credit for the GST on property and services purchased for use in such exempt supply. Such a supplier is, in effect, treated as the consumer in respect of the inputs it uses to supply an exempt property or services. Purchasers of an exempt supply of property and services pay no tax on the value of the consideration paid or payable for that supply and are entitled to no input tax credit in respect of that supply.

As noted above, a supplier of exempt property or services, and consumers, must self-assess for the tax on taxable imported services. For example, a financial institution which retains an architect outside Canada, who is not a registered vendor, to design a building in Canada will have to report and pay GST on the value of the consideration for the architectural services.

(xix) Wages and Salaries

Employment is not a commercial activity and therefore employees are generally outside the scope of the GST. Payments in respect of wages, salaries, and other remuneration (including pension plan contributions, etc.) are not taxable and therefore do not attract tax or entitle the employer to an input tax credit. However, the Technical Paper does indicate that in certain circumstances employees (i.e. commission salesmen)

will be able to obtain a GST rebate (but not an input tax credit) for the GST paid on certain expenses they incur pursuant to their contract of employment for which they are not reimbursed to the extent they are entitled to deduct those outlays and expenses for income tax purposes.

Fees charged by a person engaged in a commercial activity for the services of its employees (such as cleaning services) will be subject to GST as a taxable supply unless the services fall within the exempt or zero rated category.

E) Input Tax Credits

The input tax credit mechanism is new to the Canadian sales tax system. Some witnesses appearing before the Committee were understandably confused about its operation and the likely impact on their business or industry. However, legitimate concerns regarding the impact of the credit mechanism on compliance and cashflow were raised by business organizations whose members would normally be in an refund position under the new system.

This section of Chapter 2 addresses generally the input tax credit mechanism, including entitlement and apportionment. In addition, it reviews the Committee's deliberations and recommendations regarding the restrictions represented by witnesses as being particularly burdensome and creating needless complexity. The Committee's concerns and recommendations regarding the input tax credit complications resulting from provincial sales tax are also discussed.

Another section of this Chapter reviews general operational aspects and witnesses' representations that taxing outputs and crediting inputs will add to operating and financing costs. Chapter 4 discusses specific concerns of small business. The Committee's deliberations regarding the compliance cost of apportionment for specific dual status organizations, are contained in Chapters 3, 7, 8, 9 and 11.

(i) Technical Paper Proposals

The Technical Paper indicates that vendors who have registered to collect the tax will generally be entitled to recover the tax paid on their purchases to the extent such goods and services are acquired for use in a commercial activity. Section 108 of the Draft Legislation reduces somewhat the requirement to allocate for incidental use. It provides that property or service shall be deemed to be used exclusively in the course of commercial activities, if substantially all of the consumption, use or supply of that property or service is in the course of commercial activities. Conversely, the property or service will be considered used exclusively in the course of non-commercial activities if substantially all of the consumption, use or supply of that property or service is in the course of non-commercial activities.

A registrant generally will not be able to claim an input tax credit for the tax on a purchase until a satisfactory invoice, or other documentation of the tax paid or payable, has been obtained from the supplier. (Another section of this Chapter discusses documentation requirements.) There will be no matching requirement with respect to purchases and sales as

a condition to claiming an input tax credit on a particular purchase. Rather, if an organization makes only taxable or zero-rated supplies, generally it will be entitled to recover all of the GST paid on its purchases in the period of acquisition. However, an organization will not be able to recover any input tax credit in respect of its purchases if it makes only exempt supplies. A charity, a qualifying non-profit organization (NPO) or a registrant in the “MUSH” sector may, however, obtain a partial rebate under the separate rebate mechanisms established for groups in this sector.

The Technical Paper outlines various exceptions to the basic rule that registrants will be entitled to recover, through the input tax credit mechanism, the tax paid on their purchases, to the extent such goods and services are acquired for use in a commercial activity. The exceptions include:

- real property and improvements to real property purchased by charities, NPO’s and those in the public sector. Input tax credits will be allowed for these organizations only if the real property is acquired for use primarily in a commercial activity; and
- capital property, and improvements to capital property, purchased by registrants, other than financial institutions. Full input tax credits will be allowed for such registrants only if the capital property is acquired for use primarily in a commercial activity.

Because of the foregoing entitlement rules, allocations of input tax credits will be necessary in various circumstances. For example, since an organization making both exempt and zero-rated (tax-free) or taxable supplies, will be entitled to claim input tax credits in respect of some of its input taxes but not others, it will be necessary for such organization to allocate its input taxes in some appropriate manner. Some such dual status organizations will be free to make such allocations, in any reasonable manner, between those for use in non-commercial activities and those for use in commercial activities. However, other dual status organizations, such as financial institutions, may be required to follow as-yet-to-be-defined allocation rules. As previously noted, other organizations, such as those in the “MUSH” sector, will use as-yet-to-be-known percentages to calculate a rebate under a separate rebate mechanism.

Allocations of input tax credits will also be necessary where registrants make personal use of business inputs, where registrants (other than charities, NPO’s and those in the public sector) purchase real property and improvements to real property, and where financial institutions acquire capital property. No allocations will be necessary with respect to capital property acquired by non-financial institutions or real property acquired by charities, NPO’s and those in the public sector. Rather, as stated above, input tax credits will be allowed for these registrants, purchasing these properties, only if the property is acquired for use primarily in a commercial activity, in which case a full input tax credit may be claimed.

Recognizing that the relative proportion of commercial use to total use may change over the life of the asset, change-of-use rules are proposed in the Technical Paper for both

capital property and real property. To avoid the rules applying regardless of the degree of change, a de minimis rule is contained in the Draft Legislation. Section 238 provides that the use of the property shall be deemed not to have changed if the change-in-use is less than 10% of the total use of the property, deeming this change-in-use “insignificant”. The same section deems a change will, however, not be considered “insignificant” if the primary use of the property has changed.

Generally, the Technical Paper proposes that provisions, similar to provisions in the *Income Tax Act*, will deny input tax credit entitlement in respect of:

- membership fees or dues in any club whose main purpose is to provide dining, recreational or sporting facilities;
- personal or living expenses not incurred during business-related travel;
- the portion of the cost of automobiles in excess of the cost deductible for income tax purposes;
- 20% of meals and entertainment expenses, that is, the portion of these expenses in excess of the amount deductible for income tax purposes;
- acquisitions by employers of goods or services all, or substantially all, of the acquisition of which is for the personal use or benefit of the employee;
- capital property, other than real property, purchased primarily for a non-commercial activity; and
- real property acquired primarily for the owner’s personal use and enjoyment.

Under the Technical Paper proposals, employers are generally required to collect the GST from employees with respect to employee benefits, and remit in the normal manner. The value of the benefits would be determined and become taxable once a year, at the time the T4 Information Returns for the employees are prepared. Also, the general rule is that, where a property is acquired partly for commercial use and partly for the employee’s personal use, a full input tax credit would be available to the employer, and the benefit to the employee would be subject to GST in the manner just described. Where no input tax credit is available to the employer, such as in the circumstance outlined in (e) above, no GST will be payable on the amount of the employee benefit.

There is an exception to the full input tax credit entitlement rule where a passenger vehicle is acquired or leased by registered self-employed individuals partly for commercial use and partly for personal use. Rather than allowing a credit, the Technical Paper proposes to allow the individual to claim a credit at the end of the fiscal year equal to 9/109 of the capital cost allowance in respect of the vehicle, as claimed for income tax purposes. Thus, some credit is available to self-employed individuals even when personal, non-commercial use is the main purpose, that is, greater than 50 percent. Similar exceptions exist to the full input tax

credit entitlement rule where a passenger vehicle is acquired or leased by certain partners and employees. (The treatment of partner and employee expenses is discussed in Chapter 13.)

(ii) Witnesses' Representations

Witnesses, such as the Canadian Medical Association and the Association of Universities and Colleges of Canada, represented that compliance costs will increase because of the need to allocate input taxes between those related to tax-exempt supplies and those related to taxable or zero-rated supplies. Other witnesses, including the Private Sector Supply to Government Group, the Canadian Association of Data and Professional Service Organizations, and the Canadian Advanced Technology Association, represented that the lack of rebates for organizations making tax-exempt supplies, such as financial services, and the partial rebates for selected other groups, such as charities, NPOs and the MUSH sector, indicate both a potential towards self-supply and a tax cascading effect where the supply is made to a registered business. Witnesses also represented that, each time special treatment is granted, additional complexities, inequities and economic inefficiencies are created. Recommendations were therefore made to the Committee that zero-rated (tax-free) rather than tax-exempt treatment should be used if special treatment must be given.

The Society of Management Accountants of Canada, the Tax Executive Institutes Inc., the Canadian Manufacturers Association, and the Retail Council of Canada were some of the witnesses who recommended eliminating all or most of the special restrictions on input tax credits for club memberships, passengers vehicles, meals and entertainment. It was represented to the Committee that the proposed rules to restrict credits increase the compliance burden and seem to have limited rationale, in a consumption tax system, other than paralleling the Income Tax Act. However, other witnesses made opposite representations and recommendations. For example, the Canadian Labour Congress recommended the credit for business meal and entertainment expenses be eliminated, unless incurred during business-related travel. The Committee did not receive specific representations with respect to the input tax credit restrictions involving capital goods and real property.

Numerous witnesses, including the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, the Canadian Organization of Small Business and the Retail Council of Canada, represented to the Committee that the lack of a joint federal/provincial system will increase complexity and business compliance costs.

(iii) Committee's Conclusions and Recommendations

1. Entitlement and Apportionment

The witnesses' concerns about complexity were of prime importance to the Committee. The Committee feels the system must be as simple as possible so that business compliance costs and government administrative costs are minimized. The Committee sympathizes with the witnesses' concerns about self-supply and tax-cascading. The Committee also recognizes certain activities are difficult to tax, and some degree of complexity in the system stems from the perceived need to exclude certain items, such

as basic groceries, from the tax base to avoid regressivity. (Chapter 3 discusses this matter further.)

Although zero-rating rather than exemption avoids the complexity of apportionment and reduces the potential for self-supply, pressure is increased on “borderlines” where the former rather than the latter treatment is used. Exempt treatment may be appropriate for those organizations which the government does not wish to register. Exemption may also be appropriate where the government wishes to provide partial relief, by removing the tax on the value added by an organization but not on the inputs it uses in making exempt supplies.

As stated in Chapter 3, after careful deliberation the Committee believes the balance struck in the Technical Paper between taxable and zero-rated and exempt supplies is generally a reasonable one. Therefore the Committee proposes no major tax status changes, except in the area of financial institutions, discussed separately in Chapter 11.

The Committee also does not make a recommendation regarding the general entitlement and apportionment rules, feeling they are reasonable. The Committee compliments the government’s attempt to reduce the need for registrants to pro-rate supplies between commercial and non-commercial activities, for purposes of obtaining the input tax credits and for purposes of applying change-of-use rules for capital and real property. However, although the provisions are intended to help simplify compliance with the GST, it may, in certain circumstances, be difficult to determine whether the “substantially all” test (set out in the Section 108 de minimis rule) has been met or whether the 10% “insignificant” test (set out in the Section 238 de minimis rule) has been met. The Committee nonetheless agrees with these provisions. (However, it recommends an additional de minimis rule in Chapter 4.)

2. Restrictions on Credits

The Committee recognizes both the policy argument for taxing the personal consumption component of automobiles, meals and entertainment, and the importance of making compliance under the GST system as simple as possible. Therefore, while not wishing to abandon either of these objectives, the Committee reviewed several simplifying policy options, including whether to:

- a. leave all restrictions on credits as proposed but implement a simplified annual adjustment to the input tax credit claimed in the immediately preceding taxable year. For example, the Committee considered the possibility of allowing full input tax credits during the course of the year but requiring an appropriate adjustment at the time of filing an income tax return, recapturing the input tax credit allowed on 20% of the GST on meals and entertainment expenses; or
- b. eliminate the passenger vehicle restriction and/or the meal and entertainment restrictions on GST input tax credit entitlement and, instead,

increase the non-deductible income tax portion. That is, since the mechanism for taxing the personal consumption components already exists in the income tax system, the Committee considered the possibility of substituting, for the denial of full input tax credits, an increase in the non-deductible portion of the outlay or expense under the income tax system. (For example, 20% non-deductible portion of meals could be increased to 22%.)

As the Committee feels it is of utmost importance to make the GST system as simple as possible, the Committee recommends:

19. That full GST input tax credit be allowed for meal and entertainment expenses, and for passenger vehicles purchased or leased, including those purchased or leased by self-employed individuals, partners and persons meeting the criteria of paragraph 8(1)(f) of the Income Tax Act. If the Minister deems it advisable to make appropriate adjustments because of the personal consumption component, the changes should be made by amending the Income Tax Act. The Income Tax complications should not be added to the legislation implementing the GST

3. Provincial Sales Tax Complications

The Committee recognizes the process of identifying the input tax credits for persons doing business in two or more provinces is complicated by the existence of provincial retail sales tax (PST) on inputs purchased for consumption. Since GST will be applied to the selling price of a supply exclusive of any PST, the input tax credits claimed in respect of a supply must be calculated on the purchase price exclusive of the PST. The Committee also recognizes that complications increase where the value on which PST is payable varies by province. For example, some provinces may charge their PST on the GST; others may impose PST on the selling price exclusive of GST. Where the PST rate applied to the level of inputs varies as a result of purchasing in provinces with different PST rates, complications increase which may require sophisticated accounting procedures to trace the GST separately.

Because of the potential complications, the Committee recommends:

20. That a simplified method to eliminate the provincial sales tax component prior to determining input tax credits be allowed. The optional simplified method could involve use of a reciprocal tax factor to determine the GST input tax credit on the gross selling price including provincial sales tax and GST. An adjusted reciprocal factor to reflect an assumed tax status and value combination could be used where a business is supplying goods with a different tax status for provincial sales tax and GST purposes.

For example, assume the PST rate for a province is 10%, the selling price exclusive of GST and PST is \$100.00 and the price including PST and GST is \$119.90. Under the 9% GST, a simplified reciprocal factor of 7.51% could be used to determine that the GST input tax credit was \$9.00. In the same situation, but with a GST rate of 7% and a tax included price of \$117.70, a simplified reciprocal factor of 5.95% could

be used to determine that the GST input tax credit was \$7.00. The Committee believes this will reduce compliance and administrative costs.

If provinces include the GST in the tax base, a related concern is the businesses' ability to recover the PST paid on the business inputs that are subsequently refundable under the GST input tax credit mechanism. For example, in construction supply and install contracts, PST recoveries will be complex since the GST will be charged, and input tax credits taken, on many goods and services on which the PST has been charged. The Committee believes that businesses should not have to make PST refund claims or adjustments on each and every transaction in a province where the necessary legislative changes have been made to ensure the business is a consumer for PST purposes. Rather some sort of pro-rata aggregate adjustment should be made where PST is calculated on a value that includes GST, and the GST is subsequently recovered.

Therefore, the Committee recommends:

- 21. That the government cooperate with the provinces to ensure GST input tax credits are treated as a price adjustment for PST purposes.**

F) Documentation Requirements

Documentation requirements affect both business compliance costs and financing costs. As pointed out in the previous section of this Chapter, a registrant generally will not be able to claim an input tax credit in respect of the tax paid on a purchase until a satisfactory invoice, or other documentation of tax paid or payable, has been obtained from the supplier. If it is hard to determine the input tax credit amount, compliance costs will increase. Also, if it is hard to obtain satisfactory support for the tax paid or payable, since credits may be delayed, financing costs will increase. Therefore, the general position of the Committee is that the documentation requirements should be as flexible as possible, within the constraint of protecting against over claiming of tax (or tax avoidance).

(i) Technical Paper Proposals

In the Technical Paper, the Government says its approach to documentation requirements will rely on existing business records and invoicing practices and that, as a consequence, the GST will involve little, if any, change to existing billing practices. Vendors will be subject to certain documentation requirements, both to provide evidence to purchasers that their tax liability has been discharged and to verify their input tax credit claims.

In order to minimize documentation costs for vendors, the Technical Paper states there will be no restrictions on the form or physical characteristics of documents used to support input tax credit claims, provided they meet certain basic information requirements. The information that registrants will be required to obtain from their suppliers will vary depending on whether the value of the supplies is less than \$30.00, at least \$30.00 and less than \$150.00, or \$150.00 or more.

No supporting documentation to support input tax credit claims is required in certain circumstances, such as where reasonable per diem reimbursements are made to employees. Registered vendors will be under a general obligation to issue an appropriate document, containing the requisite information, if requested to do so by a registrant to whom a taxable supply is made. However, registered vendors are given the option of either selling tax-included (with an indication to the effect that prices include GST) or tax-excluded (with separate indication of the tax amount).

(ii) Witnesses' Representations

Witnesses represented that business compliance cost may increase, and credits may be inaccurately claimed, where the actual GST amounts are hard to determine. For example, the Canadian Institute of Chartered Accountants represented that information as to actual GST amounts may be hard to determine, or inadequate, in the travel and hospitality industry. They also represented that identification of GST would be difficult where gratuities and provincial retail sales tax (PST) are on documents. Other witnesses, such as the Canadian Gift and Tableware Association and the Commercial Travellers' Association of Canada, represented the invoice dollar amounts for information requirements are too low, suggesting alternative amounts.

Witnesses, such as the Consumers Association of Canada, the Canadian Labour Congress and the Canadian Federation of Labour expressed concerns regarding the Technical Paper's proposal of optional pricing. The Tax Executive Institute Inc., the Canadian Institute of Chartered Accountants, the Society of Management Accountants of Canada and the Council of Forest Industries of B.C. where some of the witnesses recommending optional pricing be removed and separate identification of the GST amount required, except in clearly defined situations. Various business organizations, including the Edmonton Chamber of Commerce, the Vancouver Board of Trade and the Saskatchewan Chamber of Commerce represented that tax visibility is important to control revenue increases.

(iii) Committee's Conclusions and Recommendations

1. Identification of Credit Amount

Situations may arise where, because of insufficient documentation, payment for goods and services purchased is made prior to being able to claim the credits. In other circumstances, input tax credit amounts may be hard to determine. Since it is important to be able to identify taxes paid on purchases at the earliest opportunity in order to protect against negative cashflow effects, the Committee recognizes the importance of making this identification process as easy as possible.

The Committee is therefore sympathetic to businesses' concerns about compliance and cashflow, and believes that documentation requirements should be as flexible as possible. Although the Committee does not feel the arbitrary

dollar amounts for additional invoice information should be increased, the Committee recommends:

22. That businesses be allowed to claim a standard percentage on GST tax included (invoiced and non-invoiced) purchases as a GST credit when information as to actual amounts may be inadequate and the risk of revenue loss from error is not significant. The input credit could simply be calculated by applying an appropriate reciprocal factor. Satisfactory documentary evidence should be maintained by the registrant.

For example, the reciprocal factor of 8.25% (i.e., 9/109) under the 9% rate proposed in the Technical Paper could be authorized for use where inputs purchased do not include PST. A reciprocal factor of 6.54% (i.e., 7/107) under the 7% rate proposed by the Committee could be used where inputs purchased do not include PST. To the extent that PST is imposed on the purchase of inputs to a commercial activity, it will be necessary to eliminate the PST component prior to applying the fraction 9/109 (or 7/107) to arrive at total GST paid on taxed inputs. To simplify, as discussed in the previous section of this Chapter, a reciprocal factor reflecting combined federal/provincial rates, or a deemed combined rate, could be used to determine the GST input tax credits. Wherever possible, aggregate calculations should be allowed, and estimates and rounding permitted.

2. Optional Pricing

The Committee understands the concerns expressed regarding the optional pricing proposals. However, it recognizes the current federal sales tax is entirely hidden from the consumer and the GST will achieve a great deal of visibility. The Committee is also sympathetic to retailers' and small businesses' representations to have the tax as easy as possible to collect, placing as few demands as possible on cash registers to select between taxable and exempt sales under both a federal and provincial regime.

The Committee considered the Department of Finance's representation that the federal government lacks constitutional authority to mandate tax "extra pricing". It also considered that, based on other countries' experience, vendors will likely sell on a tax inclusive basis at the consumer level and on a tax extra basis to registered persons. The Committee recognizes there are good reasons for not requiring GST identification by retailers to the final consumer, including the impractical nature in certain types of businesses and the potential to use such documentation falsely.

The Committee acknowledges the Technical Paper proposals to provide retailers, pricing tax-included, with signs indicating the GST is included in the price. Consumer confusion, represented by some witnesses to be of concern, should be lessened because of the use of signs. The promotion by the government of consistent pricing and advertising practices, through consultation with business associations and advertising councils, should decrease the potential for competitive inequities.

For the foregoing reasons, the Committee concludes that the Technical Paper proposals for optional pricing are reasonable.

G) Direct Mail Imports

Under the current law the Postal Imports Remission Order and Courier Imports Remission Order provide duty and tax relief on importation of goods through couriers and the post office if the value for duty does not exceed \$40, or the aggregate of duties and taxes does not exceed \$5.

The Technical Paper proposes to amend these orders upon introduction of the GST to exclude books and periodicals in order to allow for the application of GST to imported book and periodical subscriptions. This is intended to ensure that sales of books and magazines, both foreign and domestic, are placed on an equal footing for GST purposes.

The Committee was told by the Canadian Magazine Publishers Association that the proposal to tax foreign publishers on their subscription sales in Canada was unenforceable. They argued that these publishers would refuse to collect GST on their Canadian subscriptions and would instead mail magazines more cheaply to Canadian subscribers directly from outside Canada. The CMPA told the Committee that it would be impossible for Revenue Canada to police the imposition of GST on these magazines and periodicals because they could not be ascertained amongst the millions of pieces of mail entering Canada daily. As a result foreign magazine subscriptions could be sold to Canadians without GST while similar Canadian magazines would be subject to GST.

However, the Committee was told by officials of the Department of Finance that imposition of GST on foreign publishers was possible and has been accomplished without difficulty in value added tax jurisdictions such as France. The Committee was told that policing the imposition of GST on non-complying foreign publishers could be achieved by arresting the bulk shipments of large foreign publications destined for sale on Canadian newstands. Since magazines for sale on newstands must be shipped in bulk Revenue Canada will have easily identifiable goods for border inspection in the event these publishers are not remitting GST on their Canadian subscription sales.

The Committee believes that the means to enforce the imposition of GST on subscription sales by foreign publishers in Canada are adequate. Therefore the Committee supports the proposals of the Technical Paper.

H) Operational Aspects

This section addresses general operational aspects of the GST contained in Section 2.8 of the Technical Paper. It also reviews the representations received by the Committee with respect to the impact taxing supplies, while allowing an input tax credit, will have on operating and financing costs.

(i) Technical Paper Proposals

The Technical Paper proposes every registrant will have a single fiscal year for reporting purposes which will be divided into reporting periods in the case of monthly or quarterly filers. Registrants will have the option of selecting either the calendar year or their fiscal year or, if it is more convenient, their fiscal period for income tax purposes. Registrants will calculate their net GST remittance or refund on a periodic basis (monthly, quarterly or annually) depending on sales volume.

Registrants with taxable and zero-rated sales in excess of \$6 million per year will be required to file GST returns and remit tax on a monthly basis. Registrants with annual taxable and zero-rated sales of \$6 million or less will be required to file and remit on a quarterly basis, with the option of filing monthly. Registrants with annual taxable and zero-rated sales of \$500,000 or less will also have the option of filing annually and remitting instalments quarterly. Where the net tax remittable is less than \$1,000, instalments will not be necessary under this option.

The Technical Paper proposes that both quarterly and monthly filers will be required to file their return, and remit net GST owing, within one month following the respective reporting period. Penalty and interest will be calculated at prescribed rates on any late payments and will be charged from the due date of the return. Where a refund of tax is due, refund interest will be credited from the twenty-first day following the date on which the registrant's return is received by Revenue Canada.

The Technical Paper contains an option to file on a divisional basis, where the divisions are identifiable according to certain criteria. No special rules have been proposed for transactions between related parties.

(ii) Witnesses' Representations

Some organizations represented to the Committee that the threshold limits for filing and remitting should be adjusted to enable more businesses to file less frequently. The Canadian Council of Grocery Distributors recommended allowing all retailers to file quarterly. The Canadian Gift and Tableware Association and the Commercial Travellers' Association of Canada suggested the \$500,000 threshold should be increased to \$1 million to allow more businesses to file annually.

Many witnesses including the Canadian Institute of Chartered Accountants, the Independent Petroleum Association of Canada and the Entertainment Tax Action Committee, represented that the proposal for paying interest for refunds on the twenty-first day was inadequate and could result in additional financing costs for business. Several witnesses, including the Western Barley Growers Association and the Alberta Cattle Commission, recommended "directly" excluding major farm inputs from the tax to alleviate the cashflow cost to farmers. Other witnesses, including the Canadian Federation of Farm Equipment Dealers Association and the Canadian Retail

Hardware Association, represented more general concerns regarding the effect of taxing outputs and crediting inputs on operating and financing costs.

Mr. Wolfe Goodman recommended allowing all sales by one registrant to another to be made tax free, on production of an exemption certificate. Another witness suggested that firms should be allowed to assign input tax credits to other firms which are in position to immediately utilize the input tax credits.

The additional financing costs for exporters was also represented by some to be of concern. Witnesses speaking on cash flow impacts of export-orientated businesses included, the Canadian Exporters Association and the Independent Petroleum Association of Canada.

There were also representations from witnesses that GST could be a factor in setting up legal entities since no provisions are proposed in the Technical Paper to permit consolidated returns for associated corporations. To avoid inter-entity transactions having GST consequences in each reporting period, businesses may consider restructuring. Witnesses represented that the complexities would be reduced if a group filing option were permitted. For example, the Canadian Institute of Chartered Accountants stated in their brief that if related companies had:

“...the option of filing their returns on a consolidated basis. This would simplify the GST process for both the government and the registrants. It would reduce the number of returns, reduce the number of net refund claims and government cheques, and eliminate the registrant workload of assessing the GST on transactions between the related companies, e.g. data processing services.”

Witnesses represented additional concerns for suppliers of financial services. For example, the Tax Executive Institute Inc. recommended that transactions between entities within a controlled financial group be made tax free or, alternatively, the government's Acts be amended to permit financial institutions to perform otherwise prohibited activities in-house. Further tax cascading on financial services would occur if these recommendations were not implemented. (The problems and discussions with respect to financial services are discussed in detail in Chapter 11.)

(iii) Committee's Conclusions and Recommendations

1. Filing Requirements

The Committee reviewed the threshold limits for required filing frequency. Representations from the Department of Finance indicated that the vast majority of businesses will be filing quarterly. Only approximately 30,000 will be required to file monthly and approximately one million firms will qualify for annual filing, with quarterly returns if they so desired. Relying on these representations, the Committee concludes the proposed sales levels for filing requirements are reasonable. The Committee also concurs with the dollar limits proposed for

requiring installments to be paid, recognizing the concerns by many, including the Department of Finance, that the higher the outstanding tax liability at the end of the year, the greater the potential for cashflow problems for smaller suppliers.

2. Cashflow

The Committee recognizes that the degree to which the GST will affect cashflow will depend on many factors, including the tax status of the supplies made, the terms of trade between customers and suppliers and the frequency of GST filings. For those registrants that will normally be in a liability position at the end of each reporting period, the change over to the GST system may in fact have a positive effect on cashflow, particularly if the business currently sells goods subject to federal sales tax and is able to start on implementation date with a tax-free inventory.

However, the Committee also recognizes that persons in a net credit or refund position, such as farmers and businesses that are heavily export-oriented, could experience a significant negative cashflow impact, especially if they are smaller businesses not electing to file on a more frequent basis in order to accelerate refunds. The Committee therefore reviewed several ways to try to lessen this impact.

The Committee rejects the suggestion to eliminate any lag time between the date on which interest on refund is calculated and the date the refund entitlement occurred. The additional administrative cost of performing interest calculations on virtually all claims is the main consideration. In addition, the Committee realizes that the extra interest cost would have to be borne by the tax system. It feels that the 21 day rule will ensure no direct loss to businesses from undo delay of processing the refund claim. The government should not be expected to compensate for the float being held by the vendor.

A prime objective of the new sales tax system is to ensure that ultimately the tax applies only on the value of final consumer sales and that all business input are relieved from the tax. Therefore, the Committee also rejects the suggestion to allow all sales by one registrant to another to be made tax-free, on production of an exemption certificate. To free capital goods and other businesses purchases from taxation, the Committee feels the input tax credit mechanism is superior to the exemption certificate mechanism used in retail sales tax systems. The suggestion to allow assignment of credits is rejected on similar grounds.

The Committee does not feel the option to make a limited number of purchases directly exempt to certain groups is appropriate since special treatment such as this would increase both the compliance cost of suppliers and the potential for abuse. It would also be difficult to decide which inputs and which groups to restrict the special treatment too.

That is, would the special treatment be restricted to major farm inputs to farmers and major fishing inputs to fishermen, or would similar treatment for inputs to other groups be allowed. Also, would only inputs specifically designed for the industry be allowed direct exemption, or would other goods commonly used by the group be allowed special treatment. The Committee considered that the cashflow impact to farmers and fishermen would probably not be negative, and maybe would be positive, if supplies by them were taxable. Consideration was also given to the fact that the benefits of full recovery of input taxes may offset somewhat the negative cashflow impact for zero-rated suppliers.

However, the Committee concurs that cashflow is a legitimate concern for businesses where transactions are for the most part outside of the normal course of the business. It therefore recommends:

23. That on transactions where both parties are registrants and goods, other than inventory and commercial properties exceeding \$1 million, are supplied, GST be collected by the vendor and the input tax claimed by the purchaser on a notional basis only. That is, GST should be deemed collected and the corresponding input tax credit deemed claimed where the vendor and purchaser complete and file a prescribed form, containing details of the transaction, and Revenue Canada, Customs and Excise approves the notational collection and claim. Submission of satisfactory evidence that the proposed use will entitle the purchaser to a full input tax credit should be required, and the procedure should be allowed only in respect of purchases of goods (other than inventory) greater than \$100,000, where a registered vendor has annual taxable sales greater than \$500,000, and of purchases greater than \$30,000, where a business has annual taxable sales less than or equal to \$500,000.

Although, some compliance cost is involved in specific clearance of a transaction in the manner outlined, the procedure would be optional, and therefore likely used only on high price items by registered vendors in a net refund position. Businesses will benefit where the cost of financing the tax amount, between the time the purchase is made and the credit is received, outweighs the cost of filing the appropriate forms. The procedure ensures no negative cashflow effect when qualifying businesses make purchases outside the normal course of business, including purchases of such things as tractors, office buildings, large construction equipment and commercial property having a value of less than or equal to \$1 million. (The recommendation regarding clearance certificates for commercial properties exceeding \$1 million is contained in Chapter 7 of this report.)

3. Group Filing

The Committee carefully considered whether an economic entity should be allowed to report sales to outsiders and ignore sales within the group. It agrees that tax proposals should not cause businesses to alter their corporate structure, and recognizes the incentive under our current federal sales tax system to restructure in order to lower the tax base.

The Committee reviewed the rules for group registration in various countries. For example, Germany, the Netherlands, New Zealand and the United Kingdom allow parent companies, and their controlled subsidiaries, to be considered one enterprise for the purposes of the tax if they are very closely integrated in financial, organizational and economic respect. Since, transfers within the group, including transfers of assets, common administrative costs and staffing, as well as sales of the goods and services from other groups, generally do not attract tax, the advantages of registering as a group are significant, particularly vis-à-vis holding companies.

Alternately, if group registration is not provided for, companies may review whether they should continue their separate corporate existence, based on evaluations of the cost of financing the GST burden as it is paid and subsequently credited. Also, since fees charged by related corporations will be subject to the GST, the increased GST costs of corporations providing services to related persons selling exempt supplies may outweigh the benefits of separate corporations for income tax and other purposes. For example, health professionals may wind up their management service corporations when GST is implemented.

Although the Committee understands the GST consequences of inter-entity transactions, it also understands the Department of Finance's reasons for not proposing the option. They represented that their thinking:

“...was really guided in the first case by the experience of a variety of European value added tax systems, which have allowed consolidated returns in group filing, and their experience was that they found it extremely hard to track and then enforce the tax properly.”

For example, there is a potential to increase the input credits available, by grouping a company making exempt or partially exempt sales with a company making taxable sales. Thus, although the Committee does not wish to have GST as a factor in decisions regarding corporate structure, it believes any rules should be restrictive.

Therefore, the Committee recommends:

24. That certain related groups be allowed to elect to be treated as a single entity for GST filing purposes only. The related group given the option of group registration would be a related group as defined in Section 251 of the Income Tax Act, except that control would be deemed to mean 100% ownership. A member company could be designated as being responsible for accounting for the GST for the entire group. Although individual member companies would thereby be relieved of responsibilities to file returns, they would still be required to issue tax invoices and keep records. Also, although only one registration number could be given the group of companies, for control purposes individual member companies could be required to register as part of the group.

Businesses, who have had to set up separate companies for financing or other purposes, should have reduced compliance costs because of the foregoing recommendation.

The enactment of any new system of generalized sales taxation necessarily entails a detailed study of those goods and services which should bear the tax and those whose special status in our society merits their exclusion from taxation.

The Committee heard extensive testimony from Canadians who felt the base of the GST was either too broad or too narrow. Those seeking a broader base included groups such as The Consumers Association of Canada, The Canadian Chamber of Commerce, the Canadian Federation of Small Business, the Fraser Institute and a number of expert witnesses including Professor Robert Clark and Mr. Wolfe Goodman all of whom supported a broader base to include such items as food along with a lower rate of GST. Those seeking a more narrow base argued that particular goods and services were of sufficient importance to Canadians as to merit exclusion from the GST. These witnesses included representatives of the Canadian Labour Congress, the Funeral Service Association of Canada, Weall & Cullen Nurseries, the Canadian Magazine Publishers Association, the Canadian Veterinary Medical Association, the Don't Tax Reading Coalition, the Bowling Proprietors Association, the Prince Edward Island Draft Horse Association, and the Christmas Tree Council.

In examining the tax base as defined in the Technical Paper, the Committee has concluded that the balance struck between taxable and tax-free or tax exempt supplies is a reasonable one. As a result of its hearings across Canada however, the Committee believes a number of amendments to this chapter can be made to improve the efficiency and fairness of the GST.

A) Zero-Rated Supplies

(i) *Basic Groceries*

The Technical Paper proposes to zero-rate the sale of all basic groceries, that is, all sales of foods for preparation and consumption at home. However, two categories of food will be fully taxed.

Consistent with their treatment under existing federal sales tax, soft drinks, candies and confections and, snack foods will be taxable under the GST. For the purposes of the GST, definitions of soft drinks, candies and confections, and snack foods will be virtually the same as those in the existing *Excise Tax Act*.

In addition, restaurant meals and take-out prepared foods are not considered basic groceries and therefore will be fully taxable.

The question of whether or not to tax basic groceries was one of the most prominent issues in the course of the Committee's hearings. The Canadian Chamber of

Commerce was representative of numerous witnesses who argued in favour of a tax on food by pointing out that the GST would be vastly simplified for both consumers and businesses if artificial lines between prepared food and basic groceries were eliminated. With food in the tax base many businesses would be able to calculate their GST returns by merely subtracting their total purchases from their total sales and multiplying by the tax rate. Representatives of the Canadian Restaurant and Foodservices Association pointed out the confusing results that followed from the Technical Paper's proposal not to tax food: frozen pizza in a grocery store would be tax free but a take-out pizza from a pizzeria would be taxable; a whole pie would be tax free but a single serving would be taxable; a carton of milk from a grocery store would be tax free but the same carton of milk at McDonald's would be taxable.

Perhaps the most able description of this thorny issue came in a verse from Professor Robert Clark in the course of his comprehensive brief to the Committee. It read, in part:

What Is A Basic Food?

What is, I asked, a basic food
That should be free from tax?
I thought as I shopped at Safeway
With a little time to relax.

I looked at a tin of Helex
Snails, sixty-two grams, from France
The price for a dozen was \$5.79
I looked at the tin askance.

"Are you", I mused, "a basic food?"
Expecting no answer, I guess.
But I thought I heard a faint reply,
And the answer was clearly "yes"....

Those witnesses who sought to tax all food acknowledged the regressive impact of a tax on food for poorer Canadians but they argued that the additional revenue received from taxing food could be used to increase the refundable sales tax credits and to lower the overall rate of GST on all other purchases. Moreover, they argued that all Canadians would benefit from the economic gains Canada would realize through a simplified system. Mr. Ken Battle, Director of the National Council on Welfare, summed up this position:

"I accept the argument that there is an awful lot of leakage of tax revenue to high income people by exempting food, because we do know from family expenditure data that higher income people spend proportionately more money on food than do lower income people. Therefore a lot of the tax is being wasted on that top end.

The argument of course would be if you did tax food because that is such an essential, particularly for poor people, we would have a much larger refundable credit in order to offset the impact of tax on food, to make sure that the poor were protected.”

(*Minutes of Proceedings and Evidence* of the Standing Committee on Finance, Issue No. 34, pp. 40)

Those witnesses who opposed extending the GST to basic groceries such as the National Anti-Poverty Organization, End Legislated Poverty, and the Canadian Labour Congress argued that even the most generous sales tax credits would be inadequate to compensate many poorer Canadians for a tax on basic groceries. They asked the Committee to consider that many poor families would, out of necessity, have to spend GST credits on the immediate needs of themselves and their children and would be unable to stretch their credits out over three months to cover any tax on basic groceries even if those credits were paid in advance every quarter. Moreover, they argued that many Canadians are incapable of claiming a tax credit through the tax system because of illiteracy, transience, mental disability or other reasons.

After careful consideration of these representations, the Committee endorses the conclusions of the Technical Paper that basic groceries be zero-rated despite the higher tax rate and complexities this brings to the GST.

In choosing to treat basic groceries as tax free the Committee recognized the need to carefully consider the definitions of those taxable food items that would remain outside the scope of basic groceries, namely soft drinks, candies and confection, snack foods, and restaurant meals and take out prepared foods.

The taxable status of soft drinks, candies and confection, and snack foods reflects their current treatment under the existing *Excise Tax Act* and most provincial retail sales tax systems. The Committee believes it would be unwise to further complicate the treatment of these items at the retail level by introducing a tax treatment inconsistent with that of most provincial retail taxes. The Committee is sympathetic, however, to the arguments of the Canadian Soft Drink Association and the Confectionery Manufacturers Association with respect to competitive inequities which may exist between the treatment of these items and other items recognized as basic groceries. The Committee would therefore urge that a regular review should be conducted by the Department of Finance to ensure competitive distortions are limited. However, as a consequence of the reduction in the current 13.5% rate of Manufacturers Sales Tax applied to these items to the 7% GST rate recommended by the Committee, albeit on a higher retail base, the Committee believes these competitive distortions are reduced.

Unlike the situation for those food items already taxed under the *Excise Tax Act*, the application of GST to restaurant meals and take-out prepared foods will require the implementation of new rules to define these supplies. The Technical Paper presented

two alternatives for incorporating restaurant meals and take-out prepared foods into the GST.

- Option 1:** under this method the tax status of the food is based on the nature of the vendor, the establishment itself.
- Option 2:** under this method the tax status of the food is based solely on the nature of the product itself. Under this method a specific list of prepared food products would be taxed regardless of the type of establishment from which they are sold.

Despite many representations concerning whether or not to tax food, the Committee received few representations with respect to the choice between Option 1 and Option 2. Only the Bakery Council of Canada expressed a strong preference in its choice of Option 2.

Nevertheless, the Committee has considered both options carefully. The advantage of Option 1 is that sales of food products are taxed consistently within each type of designated establishment. In restaurants, for example, all food products are treated as taxable. Therefore, the operation of GST becomes quite straightforward for these establishments. However in order to maintain competitive equity between restaurants and other eating establishments, certain differences are created under Option 1 in the treatment of sweetened baked goods such as pies and muffins depending on whether they are sold in combination retail outlet/eating establishments or in grocery stores. For example, a bakery treated as a combination retail outlet/eating establishment which dispensed beverages on the premises and sold more than 50% prepared foods would be taxable on the sale of its sweetened baked goods in order to maintain competitive equity with similar sales made in restaurants. Yet a bakery which did not dispense beverages and which sold less than 50% prepared foods would be treated as a grocery store and could sell sweetened baked goods tax free.

Under Option 2, any anomalies in the treatment of sweetened baked goods would be eliminated because all products defined as prepared foods would be taxable notwithstanding the nature of the establishment in which they were sold. However, this approach would create considerable complexities for restaurants in that they would have to distinguish between taxable and non-taxable sales within a menu to each customer depending on whether the foods were on the list of prepared foods. For example, an order of toast would be taxable while muffins would be tax free.

On balance, the Committee has concluded that Option 1 will provide the most straightforward mechanism for both retailers and consumers under the GST. Moreover, this treatment is most consistent with that chosen in the retail sales tax systems operated by the provinces. Although the Committee recognizes that some competitive distortions are present between certain products purchased in different types of establishments, the Committee believes the impact of these distortions are mitigated at the proposed tax rate of 7%.

Therefore, the Committee recommends:

25. That tax by the nature of the establishment be adopted by the Government for incorporating restaurant meals and take out prepared food into the tax base.

(ii) Exempt Meal Plans Provided by Universities and Colleges

The Committee received representations from the Canadian Association of Colleges and Universities (CACU) with respect to the exemption for meal plans provided to university and college students. The Committee was told that by restricting the exemption to only those meal plans providing all meals for four consecutive weeks, many meal plans would not qualify under the Technical Paper. The CACU recommended that the exemption be available where ten meals per week for four consecutive weeks were provided. The Committee notes that the Draft Legislation now contains provisions allowing an exemption where 10 meals per week for four consecutive weeks are provided. **The Committee supports a definition which requires only 10 meals per week to be provided under such meal plans and endorses this provision of the Draft Legislation.**

(iii) Agricultural and Fish Products

Consistent with the zero-rated treatment of basic groceries, the Technical Paper proposes to zero-rate agricultural and fish products throughout the production-distribution chain. With the exception of certain non-food items such as flowers and furs, all sales of produce by farmers and fishermen will be zero-rated.

The Committee heard extensive representations from farm organizations across Canada with respect to the treatment of agricultural and fish products. The Canadian Federation of Agriculture, the National Farmers Union, UNIFARM, the Prince Edward Island Potato Marketing Commission, the New Brunswick Federation of Agriculture, and the Nova Scotia Federation of Agriculture, all supported the principle of zero-rating agricultural and fish products.

Several farm groups were prepared to support a tax on food and hence on agricultural produce. The Alberta Cattle Commission, and the Western Barley Growers Association both supported the principle of a broader base and a lower rate of GST.

However, for the reasons discussed in section (i) basic groceries, the Committee does not believe a tax on basic groceries is appropriate. **Therefore, consistent with the zero-rating of basic groceries, the Committee endorses the proposals of the Technical Paper to zero-rate agricultural and fish products.**

A number of issues with respect to the treatment of input tax costs, cash flow, and compliance for farmers under the zero-rated system are addressed in Chapters 2 and 4 of this report.

(iv) Prescription Drugs

The Technical Paper proposes to zero-rate all drugs which must be sold under prescription under federal law and a number of drugs which do not require prescriptions but which are used to treat life threatening conditions. In addition, where drugs for human use are sold under the prescription of a medical practitioner the drugs will be zero-rated.

The Committee was told by the Canadian Medical Association that in order to fully relieve the burden of GST, all over-the-counter drugs should also be zero-rated. The Committee believes that the zero-rating of any drug sold under prescription will substantially address this discrepancy and, moreover, by restricting zero-rated sales to the drug store dispensary, the operation of GST between taxable and tax free sales will be simplified for drug stores at the point of sale. The Committee also believes that because drugs purchased under prescription include a dispensary fee charged by pharmacists any incentive to abuse the use of medical prescriptions in order to avoid GST on over the counter drugs will be limited. **Therefore, the Committee endorses these proposals of the Technical Paper.**

(v) Medical Devices

The Technical Paper proposes to zero-rate those medical devices which are currently exempted under the FST. In addition, purchases of replacement parts used in zero-rated devices and charges for installation and repair will be zero-rated.

The Committee heard representations from several organizations representing the disabled including the Canadian Paraplegic Association and the Coalition of Provincial Organizations of the Handicapped (CPOH) with respect to this issue. These organizations stated to the Committee that relief through the Income Tax Act for their special expenses incurred to carry on employment would be their first preference under tax reform. However, given the implementation of the GST these organizations were supportive of the proposal to zero-rate medical devices but expressed concern that the list of items to be zero-rated would not be sufficient to meet the needs of the disabled.

The CPOH suggested, for example, that the full cost of vehicles and computers be zero-rated where these devices had been adapted for use by the disabled rather than merely zero-rating the adaptation equipment and installation charges as proposed.

The Committee understands the need to ensure that the list of medical devices to be zero-rated is as broad as possible but the Committee also recognizes that a balance must be struck between those devices used primarily by the disabled and those used by the entire community. The Committee believes the proposals of the Technical Paper with respect to medical devices are reasonable and therefore endorses those proposals.

However the Committee recommends:

26. That, the Government review the list of zero-rated medical devices in consultation with representatives of the disabled on a regular basis.

B) Tax Exempt Supplies

Health Care Services

The exemption of health care services falls under two broad categories.

(i) Institutional Health Care

The Technical Paper proposes that health care services provided by a public or private hospital, nursing home, or facility offering similar services for children or the mentally disordered will all be tax exempt. In addition, private nursing services provided to these institutions or to individuals in their homes will be exempt. **The Committee endorses these proposals.**

(ii) Health Care Practitioners

The Technical Paper proposes to exempt health care practitioners based on whether the practitioner's service was paid for under a provincial health insurance plan. Where a health care practitioner's service was only partially paid for under a provincial health insurance plan, the service will nevertheless be fully exempt. In addition, where a health care service is funded under a provincial medicare plan in two or more provinces, then the health care service will be exempt irrespective of whether it is funded by the local provincial medical plan.

While the Committee accepts this definition of exempt health care practitioners, the Committee is concerned that limiting the definition of exempt health care practitioners to those who are funded by provincial medicare is too narrow with the result that it discriminates against those health care practitioners not provincially funded. The Committee was told by the Canadian Psychological Association (CPA) that many community based private practice health care services provided by their members would become taxable under the Technical Paper imposing a further financial burden on patients already spending a large share of income on health care services. Moreover, the CPA argued that such psychological services significantly offset aggregate health care costs by reducing the need for subsequent utilization of expensive medical services. The Committee was also told by the Canadian Medical Association that they endorsed the view that health care services rendered by psychologists were deserving of exempt treatment under the GST.

The Committee shares the view that it is inappropriate that health care services such as psychology should be taxable. Moreover, because all health care services provided by a hospital will be tax exempt, including those services not funded by

medicare, the Committee is concerned that taxable health care practitioners will be forced to crowd into already overburdened hospitals.

The Committee believes that where a health care profession such as psychology is both a provincially regulated health care profession and included on the list of medical practitioners whose services are eligible for the medical expense tax credit under the *Income Tax Act* there should be an exemption provided under the GST for health care services provided by members of that profession. As with other exempt health care practitioners elective health care treatment should continue to be taxable.

Therefore, the Committee recommends:

27. That, health care service provided by psychologists who are registered under the Canadian Register of Health Service Providers in Psychology be exempt under the GST. The Committee further recommends that non-diagnostic psychological services provided on an elective basis continue to be taxable. For greater certainty, the Committee recommends that the Regulations to the Excise Tax Act provide that only those psychological services billed under codes A1-A2-A3 or T1-T2-T3 as diagnostic health care under the fee schedule of the Council of Provincial Associations of Psychologists be treated as exempt.

(iii) Educational Services

The Technical Paper proposes to exempt educational services where they fall under the following categories:

- elementary and secondary schools including private tutoring in academic subjects following a provincially approved curriculum;
- publicly funded colleges and universities;
- courses for entry into regulated professions or occupations; and
- training in private vocational language schools.

The Committee supports the exemption of these educational services. However, the Committee has received several representations which it believes should be addressed.

The Committee heard from representatives of private music tutors including the Nova Scotia Music Teachers Federation and the *Association des Professeurs de Musique du Québec*. These witnesses expressed concern that under the Technical Paper proposals only tutoring in academic subjects which follow a provincially approved curriculum would be exempt. Therefore, music tutors offering instructions in courses not part of a provincially approved curriculum would be required to distinguish between tax exempt and taxable services and to allocate their input tax credits between exempt and taxable supplies.

The Committee believes that such a compliance burden would be an unreasonable imposition on independent private tutors. However, under the terms of

the small trader's exemption anyone whose revenues from the supply of taxable services fall below \$30,000 will not be required to charge GST. The Committee believes that in the case of independent music tutors their supplies of taxable services, that is non-provincially approved courses, would not exceed \$30,000 and therefore such individuals would be relieved of charging tax on such services and the subsequent compliance burdens. Of course, all supplies of provincially approved courses would continue to be tax exempt.

The Committee also heard representations from the Canadian Association of University Teachers (CAUT) with respect to the proposed definition of an exempt university or college course. The CAUT was concerned that the Technical Paper proposed to exempt only courses which ...“can be taken for credit leading to diplomas and degrees”... It was put to the Committee that depending on whether the course “is” taken for credit or “can” be taken for credit could lead to different tax results. In the latter case a student might audit courses but not be receiving credit at the university. The CAUT expressed concern that the tuition paid by such students might have to be subject to GST by the university or college providing the course.

The Committee strongly believes that the exempt status for university and college credit courses should be determined by an objective standard dependent upon whether the course is recognized by the university or college for credit towards a degree or diploma and not by a subjective standard based on the intent of the student in taking the course. In testimony before the Committee, officials of the Department of Finance indicated that their intention in both the Technical Paper and the Draft Legislation was that the exemption apply based on the objective standard of whether or not the course was recognized by the university or college for credit towards a degree or diploma. However, even though the stated intent of the government would appear to be to provide an objective standard to determine the exempt status of university or college instruction the questions raised by the CAUT suggest that there may be some ambiguity under the Draft Legislation.

Therefore, the Committee urges the Government to clarify the intent of the Draft Legislation to provide an exemption for university and college courses based on an objective standard dependent upon whether the course is recognized by the university or college for credit towards a degree or diploma and to ensure that the Legislation is administered to give effect to this intent.

The Committee also heard a representation from the Association of Universities and Colleges of Canada that the taxation of non-credit courses intended as vocational training offered by universities and colleges versus the exemption of the same or similar courses offered by private vocational schools and professional regulatory bodies discriminates unfairly against universities and colleges.

The Committee believes that where universities and colleges offer courses in respect of maintaining or upgrading a professional or trade accreditation, or offer courses leading to certificates or diplomas that are prescribed by provincial regulation

and attest to competence in a trade or vocation, these courses should be exempt. Thus, universities and colleges will be on an equal footing with professional regulatory bodies and private vocational schools.

The Committee notes that under the Draft Legislation, the wording of the relevant sections appears to address these concerns by exempting supplies made by universities and colleges in respect of courses for upgrading or maintaining professional or trade accreditation, and in respect of courses leading to certificates or diplomas that are prescribed by provincial regulation and attest to the competence of individuals to practice a trade or vocation (Draft Legislation, Schedule I, Part III, s.4 & s.6). **The Committee endorses these provisions of the Draft Legislation and urges the Government to ensure that the Legislation is administered to give effect to this intent.**

(iv) Day Care

The Technical Paper proposes to exempt day care services provided on a non profit, commercial, or public basis. **The Committee supports the proposed exemption of day care services.**

Notwithstanding its support of the proposed exemption for day care, the Committee believes the application of the exemption may adversely effect some day care suppliers.

In testimony before the Committee in Vancouver, the National Action Committee on the Status of Women indicated to the Committee that, despite the exemption for day care services under the Technical Paper, some input tax costs will be passed on to consumers of day care supplies. Moreover, the amount of input taxes passed on will vary with the allowable input tax credit/rebate available to an exempt supplier of day care services depending on the nature of the supplier. Officials of the Department of Finance told the Committee that 100% input tax credits will be allowed to most employer provided work site day care excepting those businesses which supply exempt services such as banks; 50% rebates will be allowed for charitable and not for profit day care and; no input tax credits will be allowed to commercially operated day care. The Committee endorses the full input tax credits for employer provided work site day care and the 50% rebate for charitable and not for profit day care. This will ensure that day care provided by these suppliers is subject to either less tax under the GST or at least no more tax under the GST than under the existing FST.

However, the Committee believes that it is unacceptable that commercial day care suppliers will be denied all input tax credits. The Committee believes that these services are deserving of equal treatment.

Therefore, the Committee recommends:

28. That, all provincially licensed commercial day care services be entitled to a rebate of 50% of all GST paid.

(v) *Legal Aid*

The Technical Paper proposes to exempt all legal services provided under a provincially approved legal aid program.

The Committee recognizes the importance of legal aid services and supports the intent of the Technical Paper in seeking to ensure that GST results in no increase in the tax borne by consumers of these services. However, the Committee has concluded that exempt status for these services as proposed in the Technical Paper is not the appropriate method for relieving the impact of GST.

The Committee was told by the Canadian Bar Association that because lawyers provide all their services on a taxable basis with full input tax credits, the effect of introducing an exempt supply into their practices would be to create significant compliance costs because of the requirement to allocate input tax credits between exempt and taxable supplies. Such additional compliance costs would create a further disincentive to participation in the legal aid system. The Committee believes that the proposal presented to it by the CBA to treat all legal aid services as taxable and to allow a rebate of GST to the provincial legal aid societies would greatly simplify the operation of the GST for lawyers providing legal aid.

Therefore, the Committee recommends:

- 29. That, the provision of legal aid services be made fully taxable and that a full rebate of tax be paid to all provincial legal aid societies.**

Much of the criticisms of the GST proposal focussed on the compliance and administrative complexity, particularly as it will affect small business, especially those supplying goods and services directly to consumers. Witnesses made it clear that a national sales tax, with a common federal and provincial base, would greatly simplify matters for small businesses. Complications are likely to result from inconsistent treatment between the two systems rather than from special treatments within each system.

The Committee was very sympathetic to the fact that small businesses would have to cope with certain goods being taxable for federal purposes and exempt for provincial purposes and vice versa. Part A of this report discusses the Committee's views on the possibility of a joint federal/ provincial system and Chapter 2 of Part C reviews recommendations to simplify complications with respect to input tax credits under separate federal and provincial sales tax systems.

This Chapter discusses three of the four special measures proposed in the Technical Paper to accommodate small business and attempt to alleviate some of their disproportionate compliance cost. This Chapter also reviews transitional measures to ease compliance, the representations of witnesses with respect to small business measures and the Committee's analysis of and recommendations regarding these measures. The fourth measure, optional annual reporting with quarterly installments for registrants with annual taxable and zero-rated sales below \$500,000, is discussed in Chapter 2.

A) Technical Paper Proposals

The Technical Paper proposes payment of a small business administration fee equal to 0.4% of the annual revenue from taxable and zero-rated supplies of the registrant, to a maximum of \$600. Each registrant carrying on business who has revenue from taxable and zero-rated sales of \$2 million or less will be eligible for this fee. Therefore, the \$600 maximum would be available for registrants having sales (other than tax exempt sales) of \$150,000 to \$2 million inclusive. The amount of the fee will be deducted by the registrant in calculating net tax for the last reporting period each year, and is refundable to the extent it exceeds the net tax otherwise required to be remitted.

In order to avoid the need for small businesses to meet the compliance requirements of the GST, small suppliers with taxable and zero-rated sales of less than \$30,000 in the preceding 12-month period (quarterly test) are not required to register for purposes of the GST. Unregistered small suppliers will be treated as exempt entities and, therefore, will not be obliged to collect tax on sales and will not be entitled to input tax credits for tax paid on inputs. The small suppliers' exemption will also apply to supplies made by charities, non-profit organizations, selected public sector organizations and governments. It will not

apply to sales of real property. Receipts from the sale of capital property (including real or personal property) will not be used in determining whether the vendor qualifies as a small supplier. A small supplier engaged in commercial activity who elects to become a GST registrant will be bound by that election for the balance of the fiscal year in which the election is made and for the subsequent fiscal year.

The Technical Paper proposes that registrants selling a mixture of taxable and zero-rated food products at the retail level, and having annual sales of less than \$2 million, may choose to calculate the GST owing in respect of their sales on the basis of their taxable purchases. One of two "streamlined accounting" methods may be used to remove the need to operate the GST at the cash register. A transitional measure proposed is to allow those registrants with sales between \$2 million and \$6 million to take advantage of the streamlined accounting measures until 1993.

Another transitional measure proposed in the Technical Paper is to allow all registrants (small and large), that upgrade their electronic point-of-sale and inventory control systems prior to 1993, to deduct 100% capital cost allowance in respect of such costs in their income tax returns for the year of acquisition.

B) Witnesses' Representations

Many business organizations, including The Canadian Chamber of Commerce, the Canadian Federation of Independent Business and the Canadian Organization of Small Business Inc., represented that the small business administration fee was too low. The Retail Council of Canada suggested the fee should be 0.6% of sales, to a maximum of \$1200. The Automotive Industries Association of Canada suggested 1% of revenues, to a maximum of \$1500. Some witnesses recommended that compensation to all registered traders should be made.

Other witnesses represented that the threshold for exempt status should be increased. For example, The Metropolitan Montreal Chamber of Commerce recommended a threshold level of \$75,000 to \$100,000, the Alliance of Canadian Cinema, Television and Radio Artists and the *Conseil Québécois du Théâtre* recommended \$50,000, the Direct Sellers Association recommended at least \$150,000 and Professor Robert Clark recommended \$40,000.

Several witnesses represented that the streamlined accounting procedures were inappropriate or too complex. Mr. Friedman, for example, described the methods as "probably the four most complicated pages" in the Technical Paper. He added, "to ask small business persons... to figure out what their standard mark-ups is on something is ludicrous". He suggested that the tax simplification measures provided for Japanese taxpayers merited consideration.

The Canadian Institute of Chartered Accountants also said the proposed streamlined rules were of limited application and suggested the rules for retailers with non-sophisticated data gathering systems should be similar to those for small business under the Japanese sales

tax system. It represented use of prescribed mark-up may be preferable since businesses sell few products at pre-determined regular sales prices or at standard mark-ups.

Other witnesses represented that streamlined procedures should be available to more registrants. For example, the Canadian Council of Grocery Distributors represented that the threshold for streamlined accounting should be raised from \$2 million to \$4 million. Some witnesses noted that the simplifying procedures were only available to those selling taxable goods and zero-rated food products.

Certain witnesses represented that the transitional measures to ease compliance were not broad enough and increased rates of capital cost allowance should apply to all software and hardware that either eases compliance under, or transition to, the GST system. For example, the Retail Council of Canada recommended immediate write-off (with carry forward provisions) for all capitalized software costs, point of sale terminals and related dedicated processing equipment, with federal sales tax removed on these items for one year prior to implementation. It also recommended that retailers should be given a one-time GST credit to compensate for the cost of re-ticketing merchandise. The Canadian Council of Grocery Distributors also wanted full compensation (either by direct subsidy or income tax credit) to food distributors for the full amount spent on hardware and software needed to comply with the two tax systems.

Other witnesses represented that small businesses in certain industries would find compliance difficult under the Technical Paper proposals, and tax evasion through underground activities may be encouraged where supplies are to non-registrants and input costs are low.

Several industry specific recommendations were also heard by the Committee. For example, the Coalition of Canadian Transport Association and Carriers represented that tax-free treatment should be allowed for sub-contracting activities between motor carriers and independents. The Direct Sellers Association and Avon Canada Inc. wanted direct selling companies to be able to collect and remit the tax on behalf of their independent sales contractors. The Direct Sellers Association stated:

“This approach results in the records, remittances, reports, etc., being the responsibility of the Direct Sellers Companies as opposed to the hundreds of thousands of Independent Sales Contractors...with all the accompanying benefits to the governments involved of fast remittance, limited collection points and professional accounting knowledge and systems. It also provides for collection on all sales, since the \$30,000 threshold is not an issue.”

The Saskatchewan Arts Alliance represented that a system should be set-up so artists' supplies could be traded by registered artists and arts' organizations without payment or claim of GST. The Vancouver Taxi-Cab Owners Association suggested that tax liability be based on aggregate data from financial statements rather than on individual fares.

C) Committee's Conclusions and Recommendations

(i) Small Business Fee

The Committee considered carefully whether either the small business fee percentage or dollar maximum should be adjusted. It reviewed the higher fee levels proposed by witnesses and discussed, at great lengths, various policy options. It considered whether the fee should be permanent or temporary, and whether the fee's purpose was to compensate for transition costs, collection costs or compliance and administration costs. In the Committee's deliberations, the following observations were made:

- (a) the business community made strong representations that the government reduce expenditures further;
- (b) there was an apparent contradiction between these representations for expenditure reduction and the representations for higher fees;
- (c) the federal government does not currently pay businesses for collecting and remitting, on behalf of their employees, income tax, Unemployment Insurance or Canada Pension. Also, the federal government does not pay a compliance or administration fee for corporate income tax, federal sales tax or excise taxes; and
- (d) businesses ought not to be paid for complying with the laws, including the tax laws, of this country.

Despite these observations, the Committee recognizes the concerns of small business, that they may face disproportionately higher costs. Therefore, it felt that perhaps either a collection fee or a compliance and administration fee would be appropriate. The Committee concludes a fee for collection rather than compliance would be more in keeping with the principle of not paying for adherence to tax laws. It concludes, that if any fee is implemented, it should be for collection and any fee amount exceeding the net tax remittance of the registrant should not be refundable.

Therefore, the Committee recommends:

- 30. That a small business collection fee be paid, equal to the lesser of \$600 or 5% of the net remittance of the registrant. In accordance with the Technical Paper proposals, the fee should be available only to registrants who are carrying on a business and have revenue from taxable and zero-rated supplies of \$2 million or less in a full fiscal period.

(ii) Small Traders Threshold

The Committee recognizes the importance of excluding businesses from the GST system that have costs of compliance and costs to administer exceeding the revenues they produce. Also it is sympathetic to witnesses' representations that compliance costs,

as a proportion of tax paid, is much higher for small businesses than for large businesses. However, although some witnesses represented that, to simplify tax compliance and administration, the threshold amount should be increased, the Committee also recognizes that a higher limit would raise the value of the exemption and therefore increase the perception of discrimination against larger firms.

Therefore, the Committee decided to review other countries' approaches to determining what small suppliers should be exempted. It was hoped that another approach might lessen the disadvantage noted above but still ensure the objectives, of minimizing compliance costs and administration costs, are met.

The different criteria used by other countries to identify which enterprises should be exempted (or given the choice to opt out of the system), included criteria relating to sales (turnover), profit, value added, capital assets, number of establishments, numbers employed and number of owners. Although the number of employees may be the easiest measure, as an alternative to using sales as the criterion, there are problems in defining "full-time employees". Also, the criterion could discourage the employment of extra persons, and the Committee was concerned with the potential tax-planning schemes to obtain exemption where supplies are made directly to consumers. Therefore, the Committee confirmed that the preferred option is probably the exemption method based on sales. However, it considered a revised version of the Technical Paper proposal.

To lessen distortion and ease complications, Sweden allows exempt traders to issue tax invoices. This creates less distortion than the exempt treatment proposed since registered firms trading with the exempted small business are able to reclaim input taxes in the normal way. Also, the exempt trader receives compensation for the GST he pays on his inputs in the form of the output tax charged. However, the advantage of having sales less than the threshold for exemption would increase, and small traders may therefore have a disincentive to grow. Also, revenues to the government would be lost.

Based on the foregoing deliberations, the Committee believes that both the method of exempting small suppliers and the level of exemption proposed in the Technical Paper are appropriate. However, as the Committee feels more should be done to reduce business compliance costs and government administration costs, it supports implementing simplified methods for small and medium size businesses who do not qualify for the small suppliers exemption or choose to opt into the system. Following is a discussion of the Committee's review of the streamlined accounting proposals and alternative simplified methods.

(iii) Streamlined Accounting Procedures

The Committee's review of the simplified methods proposed for registrants selling taxable and zero-rated food products at the retail level determined that neither option is without a number of costs and problems.

For example, Method 1. may cause small businesses to hold low inventory levels since the retailer under this option in theory pays GST upfront on purchases as opposed to sales. Also, a retailer may end up paying too much GST where inventory shrinkage is high. Since tax is paid upfront on purchases based on a regular selling price, it will be administratively inconvenient for the taxpayer to obtain credits where a retailer discounts the sale price.

Under Method 2., the retailer pays GST on taxable sales as opposed to purchases. However the tax base is not the actual selling price of the goods. Rather prescribed mark-ups will have to be identified. Thus, although Method 2. avoids the disadvantages associated with pre-paying GST on inventory, it creates new problems for the retailer. Since distortions occur whenever averages are used, some retailers will benefit more than others. The number of mark-ups, whether they will be codified, and the frequency with which they will change, are still unknown.

Because of the problems and the restrictions on use of the streamlined accounting procedures, the Committee supports the Department of Finance's representation that it is developing methods of estimating the GST collected or collectable by consulting with affected businesses, that is, those selling taxable and zero-rated food. However, the Committee feels that optional alternative simplified methods should also be developed for small and medium size traders not qualifying for the simplified procedures proposed. Therefore, for the purpose of making its recommendations to the House of Commons, the Committee reviewed other methods to meet the particular problems of small business registrants. In its review, the Committee considered the treatment of small firms under the value added tax system in selected countries.

For example, the Committee considered simplification methods used in Japan as witnesses represented that they may be appropriate. Mr. Friedman had mentioned this simplification method allowed small business the option of paying tax on their selling price and not claiming input tax credits. In Japan, the upper threshold for claiming a notional credit is than the Japanese threshold for complete exemption. Therefore, it eases businesses into the tax system. Specifically, for qualifying businesses, tax paid on purchases of goods or services is deemed to be 80% (90% in the case of wholesalers) of the tax due on taxable sales. In effect, this means that businesses can ignore the actual tax paid on inputs, and pay a lower tax on their sales revenues. Although the results obtained may be vary from the correct theoretical result, taxpayer compliance is simplified.

When Mr. Friedman appeared before the Committee, he also gave examples of how the process of farmers and fishermen obtaining credits has been simplified. He represented that:

“In one country, farmers and fishermen are allowed to charge 2% or 3% more for their goods and call it a tax. Their purchases get a credit but they do not have to remit it, so that is their reimbursement for any credits.”

A flat rate compensation system, such as the 2% or 3% higher rate method referred to by Mr. Friedman, means that the small supplier does not normally need to register, keep books, issue invoices and file returns. However, the small supplier is technically within the tax scheme and is compensated for the tax paid on inputs through the increased price it is allowed to charge. Also, the flat rate increase in the price to customers is claimable as a credit by registered customers. Only minor problems in relation to the scheme have been identified by the Commission of the European Community responsible for monitoring the appropriateness of flat rate compensation.

The Committee recognizes certain problems existing in both of the foregoing options for simplification. The use of the Japanese reduced rate method, is a somewhat arbitrary way to compensate for the higher compliance cost of small businesses and probably would somewhat reduce revenue, create inequities and increase complexities. The flat rate method would not work for farmers under the GST system. As explained in Chapter C-3 of this report, most agricultural and fish products are zero-rated under the Technical Paper proposals. The flat rate compensation scheme can only operate where the small business receiving the special treatment has taxable sales. In addition, since the flat rate scheme is a method whereby the tax compliance burden is passed on to customers, it can only work when all sales are to the registered sector. Non-registered customers could not be expected to pass the tax on to the government. The applicability of flat rate schemes may also be limited to narrow industries of homogeneous products with very similar margins.

Despite these problems, the Committee feels a reduced rate on sales, to notationally account for unclaimed input tax credits, may be appropriate in limited situations. Also, although the flat rate method would not be possible under the GST proposals for farmers, and although, again, the theoretical result is not always as it should be, the Committee is of the opinion the flat rate method may be appropriate in certain circumstances. The choice between whether to determine the appropriate flat rate from inputs or from sales should depend on whether it is easier for the business in the industry to keep a record of sales or a record of purchases. Because flat rate schemes which apply to individual firms as opposed to individual industries are so costly to administer, the Committee feels they should be used in very limited cases.

The Committee reviewed other simplifying measures. For example, Uruguay has a further simplification method whereby certain farmers are allowed to offset their tax liability on purchase invoices against their income tax liability. Some countries subject sales to limited small exempt firms to a higher rate of tax. That is, suppliers collect an approximation of the tax that would have been levied on the sales of the small exempt firms and the small exempt firm is allowed to apply for input tax credits. Other

countries use "forfait" systems whereby the sales or tax base (based on previous years records or some external criteria, with adjustments) is determined for individual small businesses. Japan appears to have a provision which will allow full input credits to be claimed without proration, providing exempt revenue are not more than 5% of total revenues.

The Committee supports a de minimis rule, like Japan's 5% rule, to ease taxpayer compliance, and notes that, although a somewhat similar type of de minimis rule has been included by the Department of Finance in Section 108 of the Draft Legislation, Japan's rule is a simpler test as it depends on revenue rather than use. The Committee also supports the simplification represented by the other measures described above but recognizes there are problems with these schemes, as there were with the methods discussed previously. For example, a system similar to the "forfait" system would absorb an unsatisfactory amount of the government's time in administration and confer a lot of power on Revenue Canada. Also, a limit to the nominal tax liability calculated would have to be set and the system would not function well under rapidly changing conditions, such as inflation. Schemes whereby the tax compliance burden is passed on to suppliers create complications for the suppliers and should only be used where the mark-up tends to be uniform and well known, and where all sales by the small business are to the non-registered sector (otherwise unrefundable tax charges will be passed up the production chain).

Based on the review of other countries' simplified methods and the representations received by witnesses, the Committee feels a sensible balance must be achieved between the interests of simplicity and accuracy. As it encourages simplifying accounting for small businesses at the expense of accuracy of assessment, the Committee recommends:

31. That the government consider use of general simplification methods for various types of small businesses, and not just registrants selling a combination of taxable and zero-rated food products at the retail level. Since a second threshold limit could ease the transition to the GST for businesses exceeding the \$30,000 threshold, the government should consider especially simplifying procedures for small businesses in particular industries that have supplies of goods and services between the \$30,000 exemption limit and a \$500,000 limit. In all cases where additional methods are developed, the use of the method should be optional only. Small business fees should not be paid to those using simplified accounting methods, and businesses using the methods should not be allowed to adjust the net remittance calculated under the method if a lower net remittance is later calculated under the regular method. However, businesses should have the option to change the method of calculation the following year.

As alternative simple but reasonable methods must be implemented immediately to reduce record keeping on the part of small business and administration on the part of government, the Committee further recommends:

32. That the government should allow the following simplifying methods when the GST system is implemented:

- (a) a reduced rate option similar to Japan. Use of the option would have to be approved by the Minister;
- (b) a de minimis rule similar to Japan. This revenue test would be in addition to the use test outlined in Section 108 of the Draft Legislation; and
- (c) a direct seller option which provides that where all or substantially all of the goods supplied by a particular person (the "Supplier") are ultimately sold to consumers by itinerant vendors (i.e. persons selling from no fixed place of business) at prices not exceeding the suggested retail selling prices established by the Supplier, and the Supplier and all persons purchasing such goods for resale (the "Vendors") enter into a collection agreement, in prescribed form, with the Minister of National Revenue, for the purpose of the collection and remittance requirements, the Vendors shall be deemed to be employees of the Supplier. Under the terms of the Collection Agreement the Supplier will be deemed to have collected GST in respect of all goods sold by it on an amount equal to the value of the consideration for which the goods are offered for sale at retail. The value of the consideration for which the goods are offered for sale at retail shall be deemed to be not less than the suggested retail selling prices established by the Supplier.

One of the great flaws of the existing Federal Sales Tax is that consumers are, for the most part, not aware of the taxes they pay. Many witnesses endorsed the concept of a visible tax. The *Fédération des ACEF du Québec* argued that “in order to provide real protection for consumers and to avoid abuse, the amount of the tax should be clearly indicated on any invoice.” In the Committee’s view, visibility is an essential feature of any good tax. Furthermore, it is believed that taxpayers cannot hold governments accountable for taxes raised when they do not know they are paying the taxes.

The Technical Paper identifies the following two elements as key components to a model presentation of the GST by retailers:

- Identifying separately the amount of tax on cash register receipts.
- Prominently displayed signs within the store informing consumers of the total of the cost of the good and the federal tax. Where vendors choose to incorporate the GST in their shelf prices, this fact should be clearly indicated.

Recognizing that most cash registers currently used does not have the capacity to identify separately the GST and the provincial retail sales tax, the Technical Paper does not insist that vendors adopt the above model approach for the presentation of the GST. To encourage retailers to upgrade their cash registers and to facilitate their showing of the GST separately on customers’ receipts, the government proposes that a 100% capital cost allowance be provided for firms purchasing eligible electronic point-of-sale equipment and related inventory control systems prior to 1993. The Technical Paper also states that for retail establishments following inclusive pricing policy, the government will provide retailers with the appropriate signs required to indicate this fact to consumers.

When the idea of a National Sales Tax was discussed in Chapter 3 of Part A, the complexity of imposing simultaneously a GST and provincial retail sales taxes was raised. The Committee agrees that operating with two sales taxes makes it impossible to impose a common method of displaying the GST by all vendors. For example, the Canadian Federation of Independent Grocers told the Committee “... as long as the Provincial and Federal sales taxes are administered separately, it would seem almost impossible to operate without showing a price inclusive of GST.” Eventhough forcing all vendors to adopt strict pricing and display policies would minimize confusion among consumers, the Committee believes it would be unfair for many small traders who lack sophisticated cash registers to comply. As stated in Chapter C.2. relating to documentation requirements, the Committee supports the measures as proposed in the Technical Paper to encourage vendors to adopt pricing and display policies that make the GST payable as transparent as possible.

In terms of the benefits to consumers, the Committee agrees with the government that competitive forces in the marketplace will be sufficient to ensure that the savings from the removal of the actual Federal Sales Tax be passed on to consumers. Moreover, as was discussed in Section B.1.b when the price effect of the GST was examined, the 7 percent rate proposed by the Committee will greatly reduce inflationary pressures which should in turn be beneficial for consumers' spending power.

In order to assess the effects on prices of the removal of the FST and the introduction of the GST, the Government will put in place an independent body that will report to the Parliament through the Minister of Consumer and Corporate Affairs. The Committee supports the proposal as a way of ensuring that Canadians will get the full benefits associated with the GST and that consumers are protected against unfair pricing practices.

For many areas remote from major urban centres, tourism makes up a large proportion of the regional economy. As well, such areas are especially sensitive to any fluctuation in transport costs. The Finance Committee heard extensive testimony, during the public hearings outside Ottawa, from various groups about the potential impact of the GST on tourist activities and freight transportation services.

This chapter deals with four items: tourism, passenger transportation services, freight transportation services and excise tax on fuel.

A) Tourism

Under the existing federal sales tax system, certain economic activities are taxed less than others, and thus benefit from an unwarranted tax advantage, which skews consumer choices. Evening out relative prices by expanding the tax base, with a view to reducing economic distortions, will inevitably create transitional problems for the sectors that were previously not part of the base, and this is what the new tax treatment will mean for the tourism industry.

As Tourism Ontario pointed out to the Committee, it is difficult to define a “tourist activity” with any precision. Tourism is the whole range of goods and services designed to simplify access to entertainment, leisure and business activities outside the purchaser’s normal consumption area. The goods and services usually consumed during travel for pleasure or business include private and public transportation, food and drink, accommodation, and cultural, recreational and entertainment activities. The tourism industry thus includes such divergent elements as sports fishing, art galleries and conventions.

A number of aspects of the Technical Paper’s proposed tax reform will directly affect the tourism industry’s level of activity in Canada. All activities included in the definition given above will be affected, to a greater or lesser degree, by the GST. On the rules that affects the tourism industry the Committee heard from such groups as the Hotel Association of Canada, the Tourism Industry Association of PEI, of Nova Scotia, the Canadian Ski Areas Operators Association and the Alliance of Canadian Travel Associations.

In terms of the economic theory behind taxes on consumption, there is no rationale for excluding tourism related activities from the proposed tax. In accordance with the normal rules, the GST will apply to tourism related services. Registrants who buy those services will be able to claim an input tax credit. Foreign visitors will also be entitled to an input tax credit under defined circumstances since sales of goods not consumed in Canada and taken out of the country will be treated as exports. Registrants who will provide tourism related services will be eligible to claim an input tax credit on any purchase required by their

provision of that service. The tax treatment of tourism-related activities has been the object of many concessions (eg. tax treatment of passenger air transportation and of temporary accomodation), and thus does not reflect some of the theory's main principles. These compromises proved necessary to satisfy the many interest groups involved and to diminish the shock of transition. Moreover, because tourism contributed \$24 billion to the Canadian economy in 1988, employed directly 624,000 individuals, brought in \$6.9 billion in foreign exchange, those concessions are defensible on practical grounds.

The Tourism Industry Association of Canada claims that the GST "will encourage Canadians to seek lower cost destinations, particularly in the U.S.A. and will discourage foreign visitors." Witnesses represented to the Committee on the basis that both Canadian and foreign tourists are keenly sensitive to relative price variations, that they will choose cheaper destinations once the GST is in effect. The Committee believes that although short-term adjustments in tourism may result, in the long term the tourism industry will gain as a result of the economic benefits of the GST. Canadians' increased disposable real income will inevitably result in increased consumption of tourist activities. Consequently, the Committee does not view these difficulties as being permanent. Furthermore, the transitional negative impact will be greatly reduced by the lower tax rate of 7% proposed by the Committee.

In the immediate future, the potential negative effect of the GST on Canada's tourism industry will be neutralized by an increase in the number of business trips, which will cost less because of the input tax credits for business inputs. In addition the Technical Paper proposes the introduction of a tax rebate for foreign tourists, to encourage foreign visitors to Canada. The Technical Paper provides that claims must be for a minimum rebate of \$25 and may be made only in respect of goods that are purchased in Canada and then exported within 60 days (except on alcohol, tobacco or fuel, but including expenditures on hotels, motels and other short-term accommodation). Although the rebate may arguably be considered too generous, given that it includes short-term accommodation consumed in Canada by tourists, the Committee supports the compromise. It is a concession that should encourage tourists from other countries. The Committee believes that the proposed application of the GST to tourism related activities, as set out in the Technical Paper, is a well balanced compromise between treating tourism services and goods sold to foreign visitors as exports and as consumption activity taking place in Canada. For foreign visitors for example, major ticket items such as accommodation and — as will be discussed in the next section — transportation services bought outside Canada will be tax free. The Committee estimates that to include tourism packages and transportation services purchased by foreign visitors whilst in Canada in the rebatable purchases, as proposed by the Tourism Industry Association of Canada, is too big a diversion from the principle that supply and consumption of goods and services made within Canada should be subject to tax.

The Committee, like the Vancouver Hotel Association and the Tourism Industry Association of Yukon, believes that claiming a GST rebate must be made as straightforward as possible. The Committee therefore recommends:

33. That the claiming process for the foreign tourist rebate be simple and visible. At any point of entrance into Canada, information explaining the rebate system should be available to foreign visitors. The tourist sales tax rebate must be refundable, in

Canadian dollars, through mail or refundable immediately at designated points of departure from Canada. The government should remit the GST through the Duty Free Shops so that tourists can get their rebate instantly and in cash as they leave the country.

Tourism Industry Associations stated that in their view the GST would cause a downturn in the convention business because of increased prices and of a high price sensitivity. Their recommendation was that the organizer of an international convention held in Canada be zero-rated to increase the competitiveness of the industry and to ensure that foreign delegates are not charged GST. This proposal is troublesome since there is no rationale to explain why some convention related activities (eg. meals, transportation services) would be zero-rated while the same goods and services consumed outside a convention environment would become taxable. Furthermore the difficulty of defining criterias to assess the international degree of a convention is likely insurmountable. The Committee believes that the competitiveness of this important business will not be damaged by the GST since Canadians attending a convention on behalf of their business will be allowed to claim a GST credit and foreign delegates will be able to claim back the GST on accommodation expenses under the tourism rebate program.

B) Passenger Transportation Services

The G.S.T. will apply to commercial domestic transportation services including buses, trains, taxis, ships and aircrafts. Local or municipal transit service will be tax exempt. Air passenger travel services to the continental U.S. or the islands of St. Pierre and Miquelon will be taxable since they will be considered as part of domestic transportation services. All other international passenger transportation services will be zero-rated. Continuous journey to an international destination which includes a domestic air transportation service will be treated as being an international transportation service and will therefore be tax free.

The air-travel industry complained to the Committee about the treatment of transborder air travel between Canada and the United States.

The Air Transport Association of Canada argued that:

The proposed tax treatment for U.S. travel renders Canadian air carriers less competitive vis-à-vis their U.S. counterparts and will encourage Canadians ... to travel to U.S. border points for trips into the continental United States.

The proposed tax treatment does indeed differ from that proposed for other means of transportation, such as buses and trains. More fundamental still, taxation of this kind is not consistent with the principle of a tax on domestic consumption. Nonetheless, the Committee considers that treating flights to the United States and the islands of St. Pierre and Miquelon as tax free exports would have created an even greater incentive for Canadians to buy air travel services via the United States, and therefore would have been more damaging to the Canadian airline industry than the Technical Paper proposals. If border flights were tax free the domestic market of the Canadian tourism industry would have been hurt by the lower

relative prices of air travel to American destinations compared to Canadian destinations. Furthermore the fact that return transborder flights bought in the U.S. will be tax free should not cause any disincentive for Americans to visit Canada.

The Technical Paper proposes changes to the Air Transportation Tax. The Air Transportation Tax (ATT) imposed on tickets purchased in Canada for air travel within the North-American continent will change from the present ad valorem rate of 10% plus \$4 (to a maximum of \$50 per ticket) to 5% plus \$10 (to a maximum of \$40 per ticket). The GST will be calculated on the ATT included air fare. For overseas destination from Canada the flat tax of \$19 will increase to \$40. Tickets purchased outside Canada for travel to Canada will be imposed the current \$19 flat tax.

A number of witnesses challenged the proposed method of calculating the ATT. The Coalition of Canadian Transport Associations and Carriers and the Air Transport Association of Canada objected to the fact that the ATT was to be included when the amount of the GST was being calculated, on the grounds that this would lead to a tax pyramid effect. Air B.C. said that including the ATT would significantly increase the effective rate of tax on the least expensive airline tickets (short-haul flights, one-way flights, etc.).

The Committee considers that the ATT should be retained as a cost recovery measure for operating airports. Based on information received by the Committee from the Department of Finance it appears that the ATT under the actual rules and projected air travel ticket sales in 1989-90 will result in \$520 million in revenues. For the same year, the proposed method for calculating the ATT would yield approximately \$475 million. This is the result of a substantial reduction in revenues from domestic ticket sales which is partially offset by increased revenues from international flights. The Estimates shows that for 1989-90, the total operating costs and capital expenditures for major federal airports, federal dependent airports and development airports in the outlying regions should total \$724.6 million. Revenues, recoveries and the ATT should total \$807.1 million. Assuming the proposed ATT, the surplus would go down to \$37.6 million from \$82.6 million. If the ATT was to be eliminated the forgone revenue of 475 million would have to be made up by raising taxes. In the Committee's view, it is appropriate that the cost of operating airports be borne by those using these services through the imposition of the ATT.

Increasing the flat rate of \$19 to \$40 on tickets for travel from Canada to overseas destinations will restore the balance in relative prices between airline tickets to Canadian and overseas destinations. Some witnesses opposed this measure on the grounds that it was an incentive to travel via the United States. However, the Committee believes that this measure of levelling off prices will benefit Canada's tourism industry.

With the goal of reducing the cost to travel agents of administering and gathering the tax, the Alliance of Canadian Travel Associations proposed to the Committee the use of the Bank Settlement Plan (BSP) to remit the GST on tickets sold and on travel agents' commission. The BSP is currently used by travel agents as a means of remitting, among others, ATT moneys direct to the federal government. The Committee believes that the Alliance of Canadian Travel Associations may have underestimated the cash-flow advantage

associated with the remittance rules. Furthermore it may have overestimated the reduced compliance cost of using the BSP since travel agents would have to file returns to claim the input tax credit entitlement and to remit the GST in respect of sales of goods and services outside the BSP system. The Committee, therefore, would leave this administrative issue with the various private organizations active in the area (ACTA, BSP, International Air Transport Association) to pursue with Revenue Canada the feasibility of remitting the GST in the proposed manner.

C) Freight Transportation Services

The tax rules that apply to freight transportation will be altered by the government's proposal. Under the existing federal sales tax system, all services used to transport goods manufactured in Canada from the manufacturer's premises to the purchaser are excluded from direct federal sales tax. In the case of imports, the federal sales tax is computed on the duty paid value of the imported goods and therefore do not include transportation costs to Canada in the tax base. In the case of integrated manufacturing firms that market and distribute their own finished products, a deduction from the federal sales tax base is allowed for these transportation costs. However, the cost of transporting raw material and other production inputs is included in the cost of manufacturing goods in Canada and therefore is subject to federal sales tax as an element in the manufacturer's selling price of the finished product. In other words the current tax base includes all in-bound transportation costs for production inputs.

Under the new system, the GST will apply to all domestic freight transportation services in the production and distribution chain provided by any mode including common carriers, independent carriers, private carriers and postal and courier services. Supplies of international transportation services will be zero-rated. In accordance with normal rules registrants who provide freight transportation services will be eligible to claim an input tax credit on any purchase required by their provision of that service. As stated by the Department of Finance in response to a question from the Committee:

It is important to recognize that the transportation sector faces a substantial tax burden under the existing Federal Sales Tax (FST). The FST applies directly to motive fuels, loading equipment, computers and construction materials. In addition the cost of items which are nominally exempt, such as the transportation equipment itself, includes a significant indirect tax component. In total these factors result in an average tax burden of roughly 2 percent on freight transportation. However, the burden is somewhat higher on long-haul freight movement where fuel represents a substantially higher proportion of total costs. This burden will be removed under the GST because transportation companies will be able to claim full input credits for the tax on their purchases.

Equally, registrants who buy transportation services for use in making taxable or zero-rated supplies will be able to claim an input tax credit under the GST.

A recurring concern raised during the Finance Committee's hearings outside Ottawa, has been the GST's impact on the cost of transporting goods to be consumed in Canada's outlying regions. The Edmonton Chamber of Commerce, the Port of Halifax, the Coalition of Canadian Transport Associations and Carriers and the Atlantic Provinces Transportation Commission were among the many groups that expressed their views over the proposed tax treatment of freight transportation. There was general agreement that carriers' costs would go down, as a result of input tax credits, but it was argued that the price of goods and services purchased by final consumers living far from the producer would go up, since transportation of finished products would now be taxable. In addition, it was submitted the competitiveness of producers of finished products located far from their markets would be eroded, since even though they will become eligible for an input tax credit for taxes paid on transportation charges in respect of the inputs they consume, the GST will be calculated on a broader base, which will include the value added by the transportation service.

It is important to distinguish between inputs used in providing transportation services, the charges made for transportation services and the transportation element included in the selling price of goods. As stated above, the tax paid on transportation charges will be fully recoverable through the input tax credit system by purchasers who are registered vendors and use the goods in making taxable or zero-rated supplies. In the case of an unregistered purchaser (such as a consumer) no input tax credit will be given for tax on the direct transportation charges or on the transportation element included in the selling price.

The Committee recognizes that the GST could potentially increase the cost of transporting finished products that are consumed far from the point of production since the tax rate on any direct transportation charges, or on the transportation element included in the final selling price, will increase to 7% from an effective tax rate of approximately 2%. However, this inflationary effect in regions remote from production and distribution centers will be offset by a reduction in the price of zero-rated products (primarily food) that are consumed far from their point of production since the inputs used in the supply of transportation services and transportation charges as such will be effectively relieved from all tax through the input tax credit system. Evidence before the Committee indicated this tax saving could be as high as 2%. Furthermore the cost of transporting business inputs to those same regions should go down by a similar amount. As noted earlier, the transportation of inputs is currently subject to federal sales tax. Under the new system, the cost of transporting inputs will be initially taxable, but the GST paid will be fully recoverable through the input tax credit system.

The Technical Paper states, "international freight transportation services — including both inbound and outbound services — generally will be zero-rated." Segments of domestic movements of freight (from the manufacturer to a port, for example) will also be "zero-rated where the contracting shipper provides a declaration that the domestic movement is part of a continuous outbound international move."

In the case of an inbound international freight service which includes segments of domestic movements, the service will be zero-rated if the origin specified on the covering bill

of lading is a point outside Canada. However, where a separate bill of lading is issued for a transportation service commencing and ending in Canada (i.e. from Customs to the final destination in Canada) the service will be subject to GST. This treatment could increase the freight rate for foreign shippers since they will not be able to claim any input tax credit for the GST paid on the domestic movement.

The Port of Halifax represented to the Committee that the proposed tax treatment would have repercussions on every maritime point of entry to Canada, since foreign shippers would have an incentive to divert vessels to American ports and to use untaxed ground transportation originating in the United States. Specifically, if two bills of lading are to be issued there would be a tax advantage for foreign shipper to use American ports or airports and to use ground transportation from the point of arrival in the U.S. to the final destination in Canada. Assume for example two movements of goods: Liverpool (U.K.)-Halifax-Montreal and Liverpool (U.K.)-Boston (U.S.A.)-Montreal. Under the government proposal the ground transportation from Halifax to Montreal would be taxable but the Boston to Montreal trip would be tax-free. As the Coalition of Canadian Transport Associations and Carriers told the Committee:

Canada-based truckers [could suffer] potentially serious prejudice, especially with export or import movements to the United States, [since] U.S.-based truckers can obtain operating authority within Canada to compete with domestic truckers for the domestic portion of any inbound freight movement, utilizing a single through bill of lading.

The Committee therefore recommends:

- 34. That, if prepaid by the foreign shipper and as long as a declaration specifies that the transportation services is part of an international continuous movement of goods, the domestic segment of inbound international freight movements be zero-rated, whether there is a second bill of lading or not.**

D) Excise Tax on Fuel

Across the country, the hearings revealed that a number of interested parties (such as the St. John's Board of Trade, the PEI Potato Growers the Coal Association of Canada and the Atlantic Building Supply Dealers Association) requested elimination of the excise tax on fuel. It was argued that this hidden excise tax created distortions and made our exports less competitive. In the same way the tourism and passenger travel industries (such as the Tourism Industry Association of Yukon, Tourism Ontario and Air B.C.) said that the excise tax on fuel made their services less competitive. The Committee realizes that economic benefits would flow from the elimination of the excise tax on fuel for commercial use. However, the cost of such a move is estimated at just over \$1 billion. Since immediate elimination would do too much damage to Canada's fiscal equilibrium, the Committee recommends:

- 35. That once its financial position is more balanced, the government should consider the advisability of integrating the excise tax on fuel into the GST through the input tax credit system, in order to eliminate the distortions associated with the excise tax.**

This decision should be balanced to reflect environmental concerns such as a reduction in the demand for energy and the application of the “user pay” and “polluter pay” principles with a view to protecting the environment.

The Committee's review of the application of the Goods and Services tax to the real property sector is structured in three parts. Part A sets out the conceptual framework for the Committee's analysis. Part B analyzes the Technical Paper proposals under the following headings: Summary of Technical Paper proposals, Representations received by the Committee, and Views of the Committee. Part C sets out the reasons for the choice by the Committee of its recommended tax rate and the elements and detailed calculation of the tax base.

A) Conceptual Framework

The determination of the proper treatment to give to real property under a consumption tax is a difficult exercise. The issue is sensitive given that housing is an important part of household consumption.

One of the most fundamental issues that underlies the determination of the basic structure of a consumption tax that applies to real property is the appropriate measure of consumption. The more common suggested approaches to measuring consumption focus on either "flows" or "stock". At times, however, the very existence of a consumption activity is at issue. In this regard, a threshold issue was raised by some witnesses before the Committee. As stated by one witness, "land is the ultimate non-consumable".

The Committee believes that good pragmatic and conceptual arguments nevertheless exist for the taxation of land.

First, the principle of fairness suggests that land should be taxed when sold for personal use. For example, it would not be reasonable to exempt the purchase of a waterfront lot on the basis that land is a non-consumable. Although not physically consumed, land is clearly used. Moreover, even should it be a valid proposition that the purchase for personal use of real property that includes land or that is vacant land is not in itself an act of consumption, it is nevertheless an equivalent to consumption acts such the purchase of a new motor vehicle. Both represent personal expenditures in a general way and therefore should at least on pragmatic grounds be brought within a value-added tax system.

Second, the building component of real property is clearly a consumable — it is used up over time. As discussed in detail below, separating the land component of real property which includes a building raises serious technical problems.

Third, value added taxes also apply to transfers of stock, for example buildings. Land is a stock and value can be added to land. It is therefore logical to tax land, at the very least to permit input tax credits for taxes paid on land improvements.

The treatment of land and buildings in different jurisdictions is not consistent. The jurisdictions in which real property is taxable address the taxation of land through a mix of measures including value-added taxes, registration fees, transfer taxes and stamp duties.

Fundamentally, a consumption tax that applies to flows of real property uses rents as the measure of consumption. Under such an approach, tenants pay tax on actual rental payments whereas owners pay on imputed rentals. A consumption tax applying to real property stock applies instead to transfers of property.

These two approaches are not necessarily mutually exclusive. Rather, it is possible to devise a tax that applies in certain instances to stock, and in others to flows.

The Technical Paper proposes an approach that blends the taxation of both stock and flows depending on the circumstances. Whereas the substance of the proposals is to tax transfers of stock, not all such transfers are taxable. Moreover, flows do not always escape taxation.

In the non-commercial sector, the substance of the Technical Paper proposals is to tax transfers of newly residential stock. Transfers of existing stock are generally exempt. Flows are also generally exempt: long-term residential rents (one month or more) are exempt but rents of a duration of less than one month are taxable. Moreover, property owners are not required to calculate tax on the basis of imputed rentals.

In the commercial sector, the Technical Paper proposes to tax both flows and transfers of stock but generally proposes to remove the burden of such taxes from registrants through the input tax credit system. In this regard, the tax can be viewed as taxing neither flows nor stock since the input tax credit effectively removes the tax burden from the commercial sector, leaving the ultimate burden of the tax borne by the consumer on purchases of taxable property or services from the commercial sector. There are however important exceptions. Financial institutions do not receive immediate relief for taxes paid on acquisition of stock to the extent that the stock is used by the institution to provide exempt supplies; a credit for such taxes is however available when the property is resold. Additionally, the tax on rents paid by financial institutions is not rebated to the extent that the leased premises are being used to make exempt supplies. Similarly, charities, non-profit organizations and selected public sector organizations are only entitled to input tax credits for the taxes payable on the acquisition of commercial real property to the extent that the property was acquired primarily for use in a commercial activity. These entities however receive partial rebates for any taxes that have not been credited through the input tax credit system. Similarly, taxes on rents paid by these entities are only creditable to the extent of the commercial use of the property.

The Committee believes that the goods and services tax as a consumption tax should not ultimately be borne by the commercial sector. As discussed in Chapters 8, 9 and 11, the Committee concurs with the rationale of the Government for limiting the availability of input tax credits for financial institutions, charities, non-profit organizations and selected public sector organizations in respect of exempt supplies.

The Committee believes that the most appropriate approach to the application of a consumption tax to non-commercial real property is to tax transfers of stock. In theoretical terms, taxing flows may have merit since arguably this would result in the application of tax to a more appropriate measure of current consumption. Such an approach, however, raises extremely difficult technical and compliance issues such as the determination of imputed rents for homeowners. The Committee believes that adopting a flows approach to the non-commercial sector is impracticable. The Committee thus rejects this approach as cumbersome administratively, and supports the application of the tax to transfers of residential stock.

The Committee believes that a consumption tax on the transfers of real property stock should be based on the following principles:

(i) The Tax Should Not Distort The Housing Markets

The Committee believes that if one accepts as it does that taxing stock is the appropriate method of measuring consumption, the tax should apply equally to all housing or residential stock. The Committee believes that it would be inappropriate to apply the tax to a select portion of the real property stock, and not to apply it to another part that has otherwise the same characteristics. For example, applying the tax to new buildings but not to existing buildings creates a serious risk of distortion in favor of existing buildings and, presuming that markets operate freely, has the potential of giving existing owners a windfall gain. Furthermore, applying the tax to some land sales and not to others also leads to distortions.

The Committee addresses these issues more fully in the next section which details its analysis and recommendations.

(ii) The Tax Should Treat Home Owners and Residential Tenants Equally

The Committee believes that the application of a consumption tax should not discriminate between home owners and residential tenants. A consumption tax should apply equally to all types of consumption of shelter and not induce individuals to choose one form of shelter over another.

Under the Technical Paper proposals, a tax rate of 9% applies to the acquisition of new rentals buildings while a net rate of 4.5% (rate of 9% less a housing rebate of 4.5%) applies to new residential construction costing \$310,000 or less. This has the potential of being distortionary.

(iii) The Tax Should Be Consistent Between Acquisitions and Sales of Similar Properties

The Committee believes that a consumption tax should not discriminate between different methods of acquiring of real property. In particular, an individual vendor should not be in a position to gain a permanent advantage or a windfall through the

tax system from constructing his own home rather than contracting out such construction to a developer, or from renovating or making an addition to an existing home rather than purchasing a similar home. The Committee does not propose to tax self-supply of services in these situations. However, the Committee believes that the value added, whether by a contractor or an individual homeowner, should ultimately be equally recognized under a consumption tax system.

The Committee believes that the taxes payable by a person on the acquisition of property should depend on the nature of the property and not on such subjective elements as the status of the vendor and the use of the property by the vendor. Otherwise, the tax leads to inconsistent results and can confer windfall gains.

By way of example, under the Technical Paper proposals:

- A sale of property renovated by an individual who is not in the renovation or construction business is exempt, where a similar sale by an individual carrying on such a business is taxable;
- Personal-use land sold by an individual is exempt, where land sold by a developer is taxable;
- Land sold by an individual in the business of buying and selling land is taxable, while land sold by an individual who is not in such a business is exempt;
- Land sold by a charity to an individual is taxable, while land sold by the same charity to a developer is not taxable in most cases.
- Sales of existing residential properties are usually exempt if the vendor is an individual but, if the vendor is a developer who carried out a substantial renovation to the property, the sale is taxable;
- A sale by a vendor who claimed an input tax credit in respect of a property is taxable, whereas a sale by another vendor may be exempt.

Providing exemptions for some sales while taxing others confers potential windfall gains to owners of property the sale of which is an exempt supply. The vendor may increase his price on the sale by reference to the tax imposed on the taxable supply of similar properties. Moreover, exempting certain sales of property creates confusion in the marketplace.

These are some examples of inconsistent treatment that can be found in the Technical Paper. To be fair, the Committee recognizes that, in some cases, the inconsistencies may be more apparent than real and that purchasers may in certain cases by operation of market forces not face different prices for property sold in different circumstances. However, the proposals are nevertheless potentially inequitable, confusing and conducive to uncertainty.

The Committee addresses later how its recommendations eliminate the differences noted below (see Section C of the present Chapter — tax base).

(iv) Competing Resources Should Bear Comparable Tax Burdens

The Committee believes that taxpayers who compete with others for the allocation of the same resources should benefit from comparative tax treatments. For example, under the present proposals, the not-for-profit sector enjoys a comparative advantage over the private sector with regard to the supply of comparative rental housing. Similarly, the Technical Paper proposals may favor the acquisition of vacant personal-use land over that of land sold by developers. These results are not justifiable.

(v) The Application of the Tax Should Be Clear and Simple

The Committee believes that taxpayers should be able to plan their affairs with certainty, particularly with regard to real property purchases. The Committee believes that, by basing the tax liability of a purchaser of real property on the status of the vendor, the Technical Paper proposals create substantial confusion.

B) Technical Paper Proposals

The Committee's comments under this part address the proposed taxation of land, new residential housing, existing residential housing, other personal-use properties, rental buildings, commercial buildings, and renovations.

1. Land

(i) Technical Paper Proposals

The Technical Paper proposes that the tax apply to all sales of land, unless the sale is specifically exempt. The Technical Paper proposes to exempt sales of personal-use land by individuals or trusts (all the beneficiaries of which are individuals), other than real property which was used or rented by the vendor in the course of a taxable commercial activity, or real property sold in the course of a business. Sales of land by charities, non-profit organizations, and certain selected public sector organizations to persons other than individuals are also to be exempt unless an input tax credit was claimed by the vendor in respect of the land. Sales of farmland between related individuals or as part of a going concern are additionally to be exempt.

(ii) Representations Received by the Committee

The Committee received many representations to the effect that the sale of land should not be a taxable supply.

The Canadian Home Builders Association (CHBA) represented that the exclusion of land, coupled with a housing rebate scheme, is the most mitigating of all other options with regard to the expected negative effects of the tax on new housing. The

CHBA represented to the Committee that differences in land values account for regional variations in housing costs and, consequently, the relative affordability of housing.

The CHBA represented to the Committee that it would be administratively feasible to separate land from the total sales price of new homes. In this regard, the CHBA suggested the following two methods to separate the land component from the selling price of new homes. First, the builder could, by means of a self-assessment procedure, estimate the land value. Second, guidelines could be established to aid the builder in determining the land component — such guidelines would set out allowable proportions of land to total price and would address variations by house type, lot size, density and market area, and be similar in scope to the Maximum Unit Prices (MUPs) established by CMHC for social housing. Of the two approaches, the CHBA favors the assessment by the builder.

The CHBA represented to the Committee that land costs as a percentage of the selling price of single-family houses and apartment condominiums are as follows:

LAND COSTS AS A PERCENTAGE OF SALES PRICE

	<u>Single-Family Houses</u>	<u>Apartment Condominiums</u>
	%	%
Toronto CMA	45	15
Vancouver CMA	35	15
Montreal CMA	27	15
Rest of Canada	19.2	15
Canada	22.5	15

The CHBA submitted to the Committee on the basis of the above data that, on a regional basis, land costs account for widely-varying proportions of the selling price. The CHBA thus argues for the removal of the land component.

The CHBA submitted alternatively to the Committee that treating sales of personal-use land by an individual and sales of certain land by the non-profit sector as exempt supplies, as the Technical Paper proposes, creates competitive inequities with land purchased from developers, as the latter transactions are taxable. The CHBA represented that the proposals do not entitle a developer to a notional input tax credit when raw land is purchased in a transaction that qualifies as a tax-exempt supply. The CHBA suggests that this could lead to tax cascading. Moreover, the CHBA submitted that it is appropriate that no self-supply rule apply in such cases since an individual

could acquire personal-use land from another individual without tax, and then build his own house.

The Canadian Home Builders Association suggested finally that the classification as taxable supplies of land sales by individuals who are engaged in the course of a business is confusing to purchasers as such a determination is highly subjective.

Other witnesses also argued in favor of the exclusion of land from the tax base.

The Canadian Real Estate Association stated that the zero-rating land may prevent the tax from exacerbating required differences in housing costs. The Association feels that such a measure could permit the elimination of the proposed housing rebate program. The Association recognized however that there are technical problems associated with such an approach.

As noted below, the thrust of the submission by the Urban Development Institute (UDI) was that both new and existing housing should be taxed in accordance with a "trade-up" approach. However, the UDI submitted alternatively that another approach to reducing the impact of the tax on the housing market would be to eliminate land from taxation. The UDI argued in this regard that land, not taxable under the federal sales tax, is neither a manufactured good nor a service and that many of the inequities in the proposed tax result from the fact that while construction costs do not vary significantly across the country, the cost of land does. The UDI suggested that while some may argue that this would be complicated to administer, most provincial assessments clearly distinguish between land and improvements.

The Canadian Construction Association (CCA) questioned the conceptual foundation of a consumption tax on land in particular, whether the purchase of land can be a consumption activity. The CCA recognized however, that, if land were excluded from the tax base, there would likely be a strong bias to allocate as much as possible of the total purchase price of a property to the land component and the least possible to the building component. Thus, while the CCA objects to the inclusion of land in the tax base, it recognizes the technical difficulties in allocating the total purchase price of a property between the land and building.

Mr. Wolfe Goodman, Q.C. from Goodman and Carr also raised concerns in relation to the proposed treatment of land sales. Mr. Goodman stated that the Technical Paper contains a great many anomalies. Mr. Goodman was particularly concerned that, under the Technical Paper proposals, the taxation of land transactions varies considerably depending on the status of the parties. Mr. Goodman submitted that land sales should be exempt.

Mr. Goodman conceded that there are administrative difficulties in separating the land component from the building component for the purpose of exempting land sales. Mr. Goodman suggested however that statutory rules and administrative guidelines could be developed to provide an effective and reasonable exemption in respect of the

land portion of housing sales without abandoning the principle that land itself when sold should not be the subject of a goods and services tax.

Professor Robert Clark also submitted that land sales should not be taxed, regardless of the purposes for which land is used. Professor Clark submitted that the purchase of land is not a consumption expenditure, and that exempting land would lessen the need for a housing rebate.

(iii) Views of the Committee

The taxation of land under a consumption tax could be addressed under one of three approaches. First, all land transactions could be excluded from the tax base. Second, as the Technical Paper proposes, only specified land transactions could be taxed. Third, all land transactions could be taxed. The Committee favors the third option with one exception: The Committee recommends the taxation of all land sales except, as the Technical Paper proposes, transfers between individuals of land used for farming purposes, and transfers of land used for farming purposes as part of the transfer of a going concern. The reasons of the Committee are discussed below.

The Committee rejects the exclusion of land from the tax base because this would require the development of complex rules designed to separate the land component from the building component in order to permit that the land component of a property not be subject to tax on the sale of the property. While it was suggested to the Committee that the calculation of the land component could be achieved by such diverse methods as statutory rules, government guidelines, historical costs, municipal assessments and self-assessment procedures, the Committee is not convinced that any of these methods could be satisfactorily applied to exclude land in a clear and simple rule while respecting the principles of certainty, simplicity and consistency of treatment. The Committee is also very concerned that providing an exemption for land transactions would lead to valuation disputes and, in this regard, fears that in any dispute, the legal, accounting, appraisal and other costs of contesting the valuation of the land could outweigh any potential tax benefits to the purchaser. The Committee recognizes that land costs account largely for regional differences in housing prices. In view of the considerations discussed above, however, the Committee believes that the issue is best addressed by a general reduction of the tax rate applied to real property, rather than by the introduction of any mechanisms to exclude land from the base (see Part C for discussion of the tax rate).

The Committee also rejects the selective taxation of land sales based on the vendor's status, as proposed by the Technical Paper. As noted above, the Technical Paper proposes that sales of personal-use land by individuals and certain trusts, and certain sales of land by charities, non-profit organizations and selected public sector organizations be exempt. The Committee judges that it is not in the best interests of the market place that a system be developed under which some land transactions are taxed and others are not. The Committee believes that such a measure could prove to be inequitable, distortionary, complex to administer and lead to uncertainty and confusion.

The Committee therefore recommends that the taxation of all land sales except the following transfers of farmland:

- transfers of land used for farming purposes between related individuals;
- transfers of land used for farming purposes as part of the sale of a going concern.

In keeping with the principles noted above, the Committee believes that this approach substantially lowers the risk of distortion and confusion with respect to real property transactions. Furthermore, this approach is clear, simple, leads to consistent results and will be clearly understandable to Canadians.

2. New Residential Housing

(i) Technical Paper Proposals

The Technical Paper proposes that the tax apply to the sale of newly constructed houses. The tax is to apply without exceptions, even where the sale is made by a charity, non-profit organization, selected public sector organization or government.

The Technical Paper proposes furthermore that a new home purchaser who is a resident of Canada and who proposes to use the home as his principal residence be entitled to a rebate of 4.5 percentage points of tax where the consideration paid for the house is \$310,000 or less. Where the consideration paid by such an individual is more than \$310,000 but not more than \$350,000, the individual is to be entitled to a rebate of \$13,950 — the value of the 4.5 percentage point rebate on a \$310,000 house. Where the consideration paid by the individual is more than \$350,000, but not more than \$400,000, the individual is to be entitled to a rebate of a fraction of \$13,950, based on a formula which progressively decreases the amount of the rebate as the house price moves up towards \$400,000. Beyond \$400,000, no rebate is available.

(ii) Representations Received by the Committee

The representations received by the Committee largely dealt with the structure and quantum of the housing rebate and the advantages of excluding land from the tax base, rather than the merits of the imposition of a consumption tax to new housing. The Canadian Home Builders Association, the Canadian Construction Association and Professor Robert Clark did suggest however that an alternative option was the taxation of imputed rents.

◦ Housing Rebate

The Committee received many representations with regard to the structure and operation of the housing rebate. Industry groups, including the Canadian Home Builders Association and the Urban Development Institute, submitted to the Committee that the operation of the phase out of the rebate is such that home

builders will avoid constructing homes in the \$310,000 to \$450,000 price range, given that consumers will be reluctant to purchase these homes. Furthermore, it was suggested to the Committee that the choice of the \$310,000 threshold will induce builders and purchasers to engage in tax planning activities to keep the initial house price at or near the \$310,000 to \$350,000 level. For example, it was suggested that developers could cap their sales price at \$350,000 and provide the extras over and above \$350,000 under a separate contract.

The Committee also heard that the rebate formula is inequitable for homes costing \$350,000 or more. Of particular concern to the Urban Development Institute is the rapid phasing out of the rebate for homes costing between \$350,000 and \$400,000. The Urban Development Institute represented to the Committee that the rebate scheme results in an effective marginal tax rate of 36.9% on these homes. The UDI further represented that the rapid phase out of the housing rebate fails to recognize that in high land-cost markets such as Toronto and Vancouver, homes costing in excess of \$350,000 are not a luxury. The UDI suggested therefore that the rebate of 4.5 percentage points proposed in the Technical Paper apply to the first \$310,000 tranche of the price of a house with the excess being taxable at 9%.

For houses costing \$310,000 or less, the Canadian Home Builders Association (CHBA) represented to the Committee that the rebate is not sufficiently generous to ensure that the tax does not pose a barrier to the affordability of housing. The Technical Paper states that the rebate will substantially offset the impact of the tax on the vast majority (over 90 percent) of new houses purchased in Canada. The Technical Paper states that as the current average effective rate of federal sales tax on a home is slightly more than 4.0 percent, a net rate of 4.5 percent on houses costing \$310,000 or less should not increase materially the price of most housing in Canada. The CHBA challenged the Technical Paper's assertions on two principal grounds. First, the CHBA submits that the current average effective rate of federal sales tax is approximately 3.7%. Second, the CHBA suggests that market operations will be such that approximately one third of the potential savings resulting from the elimination of the federal sales tax will not be passed along through lower prices. The Urban Development Institute generally corroborated this latter view.

The Newfoundland and Labrador Home Builders Association (NLHBA) adopted and supported the brief of the Canadian Home Builders Association. The NLHBA submitted that the tax would add substantially to the cost of a home in Newfoundland because the tax rate is applied to the full selling price of the home, as opposed to the present imposition of the federal sales tax only to taxable construction materials.

The Canadian Institute of Public Real Estate Companies submitted that the proposed rebates will work well for most of the regions of Canada but that, as the demand for accommodation in a number of urban centres, such as Toronto, has

far outstripped the supply of serviced land and has created a rapid escalation of house prices, the tax will adversely affect the affordability of new housing in these areas.

Professor Robert Clark recommended that the rebate formula reflect the fact that the average selling price of homes varies greatly across Canada. Under this approach, varying rebates would be paid on the basis of regional differences in home prices.

The Northwest Territories Construction Association also felt that the tax rate proposed by the Technical Paper is too high.

° *Land Exclusion*

As noted in the above discussion on land, the CHBA submitted an extensive analysis to the Committee for the purpose of its review of the tax on new homes. The CHBA suggested that while a solution to the purported affordability problem may be to enrich the housing rebate so as to lower the effective rate of tax, the preference of the Association is the exclusion of land from the tax base coupled with a rebate of 4.5 percentage points of tax on the price of the home excluding the land. The CHBA submitted to the Committee that this would be the best option to mitigate the adverse effect of sales tax reform on the affordability of new ownership housing total.

The Committee heard a number of other representations to the effect that regional differences in land costs in Canada will account for significantly different burdens of tax on the acquisition of new homes. The Canadian Construction Association corroborated this view. It was suggested to the Committee that the exclusion of land from the tax base would significantly reduce the cost of purchasing a house in the high land cost markets and, in so doing, would remove the need for a housing rebate. The Urban Development Institute suggested as one of the alternatives raised in its submission that housing could be taxed progressively by applying a 4.5% rate to a regionally adjusted average price of all homes, and the general GST rate to any excess amount.

(iii) Views of the Committee

The Committee's views on the Technical Paper proposals and on the representations received by it are as follows:

° *Housing Rebate Rate*

As noted above, the Technical Paper proposes that new housing costing \$310,000 or less be taxed at a net rate of 4.5%. Housing costing more than \$310,000 but less than \$350,000 is to be taxed at an effective rate ranging between 4.5% and 5.0%. Housing costing more than \$350,000 and less than \$400,000 is

taxable at an effective rate ranging between 5.0% and 9%. The actual and effective tax rate on houses costing more than \$400,000 is to be 9%.

The assumption that underlies the choice by the Department of Finance of a 4.5% rebate for eligible houses is that the current average effective rate of federal sales tax for the nation as a whole on housing prices is approximately 4.2%. As noted above, the Committee heard representations from the Canadian Home Builders Association that the actual rate is closer to 3.7%.

The Committee endeavoured to reconcile the figures of 4.2% and 3.7% respectively. Rather than being in a position to conclude on the correctness of either number, the Committee is simply able to note the differences in methodology.

The estimate of the Department of Finance was arrived at by using 1984 input-output data while that of the CHBA used 1980 input-output data. Although the CHBA contests this analysis, (see below) the Department of Finance submits that the 1980 input-output data underestimates the federal sales tax component of house prices for two reasons. First, the Department of Finance submits that the recession that occurred between 1980 and 1984 tended to make the production of goods more capital intensive. The Department feels that the 1980 input-output tables systematically underestimate the amount of capital equipment involved in the construction of a house. Second, the Department of Finance feels that the trend toward increasing the amounts of capital used in the production of a house continued to increase since 1984 so that even its estimate of 4.2% may today be low.

The CHBA challenges the assertion by the Department of Finance that the use of 1980 input-output tables underestimates the amount of federal sales tax for three reasons. First, the CHBA submits that the volume of new residential construction activity was actually higher in 1980 than in 1984 - the CHBA thus finds it difficult to conceive that the industry made major investments in machinery and equipment in 1984 or during the recession period. Second, the CHBA submits that the homebuilding industry has never been capital intensive, nor is it today, and has lagged when it comes to the introduction of new technology. Third, the CHBA submits that most productivity improvements in house construction in Canada occurred prior to the mid 1970's and have been relatively low since that time.

The Department of Finance points out that the CHBA estimate does not capture significant base changes since 1984, such as the rescinding of the on-site, off-site provisions. In response, the CHBA states that such broadening only adds very marginally to the average federal sales tax component.

In summary, although the Committee is not in a position to arbitrate the differences discussed above, it notes that the CHBA does not contest that its

estimate was computed using less recent input-output tables and that its estimate does not incorporate certain changes in the tax base.

As noted in Part C, the Committee recommends that a single rate of tax of 5% be applied to all supplies of real property. The Committee feels that this will relieve the system from the difficulties of the dual rate and of the structural difficulties of the housing rebate. For the reasons given in Part C, the Committee considers that the affordability of housing would not be materially adversely affected by the introduction of a 5% rate.

° ***Housing Rebate Thresholds***

The Committee concurs with the representations made before it to the effect that the housing rebate and the thresholds for the application of the rebate could induce builders to avoid the construction of homes the cost of which ranges between \$310,000 and \$450,000. The Committee accepts furthermore that consumers may avoid such homes. The Committee thus concludes that the thresholds and the phase-out schedule of the housing rebate program could lead to serious distortions.

The Committee recognizes that the design of a program such as the housing rebate program can inherently pose problems because of the necessary and arbitrary choices that need to be made. The Committee recognizes furthermore that the thresholds were chosen so as to address regional differences in housing prices and to offer a program of appeal to the vast majority of Canadians. Unfortunately, because of widely varying house prices across the country, the thresholds may be too generous for some Canadians and not generous enough for others. Although it was put to the Committee that the thresholds could be improved by designing a system of regionally-adjusted thresholds, the Committee rejects this option as being much too complex and arbitrary.

As explained in Part C, given that the Committee proposes that a single tax rate of 5% apply to all real property transactions, the housing rebate program will not be required. This, obviously, does away with the threshold problems discussed above.

As discussed above (see Land), the Committee does not favor the exclusion of land from the tax base. The Committee feels that the application of a tax rate of 5% is, all things considered, the preferable approach.

3. Existing Residential Housing

(i) Technical Paper Proposals

The Technical Paper proposes that resales of existing housing be exempt unless the vendor claimed an input tax credit in respect of the acquisition or the improvement of the home. The Technical Paper proposes however that the sale of an existing home

be taxable where the home underwent a substantial renovation in the course of a business involving the purchase, renovation and resupply of used homes.

(ii) Representations Received by the Committee

° *Exemption of Existing Stock*

Many industry representatives submitted to the Committee that exempting resales of existing homes would be distortionary. The CHBA represented that applying the tax only to new housing could cause harmful distortions and inequities between the new and existing houses, and would hurt housing markets and their constituents. The CHBA represented furthermore that the application of the tax only to new housing could drive up the price of existing homes, thereby creating a windfall gain for owners of such homes.

The UDI corroborated the view of the CHBA by stating that the tax as currently proposed would induce taxpayers to avoid its application by renovating current residences, or by acquiring existing homes instead of new homes. The UDI felt that with fewer resale homes available and more purchasers, resale prices could rise more than the new GST would warrant, thereby further distorting the market place.

The Conservatory Group stated that by taxing only new housing, one of two outcomes could occur. First, homebuyers could shun new construction in favour of existing supply, thereby severely impacting on the already volatile house building industry. Second, the price of existing housing could rise artificially as a result of the "discount" induced demand.

Mr. Goodman remarked that one of the obvious effects of taxing the sale of new housing on the basis of both the land component and the building component would be to depress the sales of new houses and the housing industry, and to increase the price of old houses.

The Canadian Real Estate Association was less certain on the impact of the tax on houses priced lower than \$310,000, given the importance of the assumptions concerning the amount of the federal sales tax embedded in current house prices and the degree to which the federal sales tax component would be eliminated through competitive market forces. The Association was clear however that the tax will in the absence of countervailing market forces, tend to increase the price of new houses that cost more than \$400,000, and thereby cause the price of comparable existing housing stock to rise in tandem.

The Canadian Construction Association took a somewhat opposite view by suggesting that the housing rebates would effectively minimize any windfall gain to owners of existing housing that could result from the application of the tax. The CCA thus concurred with the view of the Department of Finance that the

proposed 4.5% rebate would not affect the price of new housing unit below \$310,000.

The Atlantic Building Supply Dealers Association did not specifically recommend the taxation of existing housing. However, the ABSDA urged the Government to eliminate all exemptions and to make the GST universal. The ABSDA felt that it is a matter of vital importance for the housing industry that the burden of the GST be spread as much as possible. The ABSDA recommended that the rate be reduced to 5%.

° *Taxation of Existing Stock*

In light of the expected impact of the Technical Paper proposals on the housing markets for new and existing homes, the Canadian Home Builders Association, the Urban Development Institute and the Conservatory Group supported the principle of the taxation of existing homes. The Canadian Home Builders Association made it clear however that its principal submission was that land should be excluded from the tax base and that a rebate equal to one-half of the tax paid on the acquisition of the house should be given. The CHBA thus stated its views in respect of the taxation of existing stock in a follow-up submission.

The Committee received a distinct proposal from each of the UDI and the CHBA with regard to the calculation of the tax base for the taxation of existing housing.

The Urban Development Institute proposed to tax only additional housing spending and thereby to apply tax to each purchase on the amount by which the purchaser of the house trades up in price. A purchaser of a house would thus pay tax on the basis of the cost of the house purchased, but receive a credit for any taxes collected by him on the sale of his previous home. The tax would apply at 4.5% on the first \$310,000 of house price and at 9% thereafter. For example, a purchaser of a house costing \$300,000 concurrently with the sale by him of a house at a price of \$200,000 would attract a net tax of \$4,500 in his hands, this amount representing the difference between the gross tax of \$13,500 otherwise payable on the purchase, and the tax of \$9,000 collected on the sale. The proposal was stated by the UDI to be a tax on additional housing spending since only the incremental spending or the trade-up (in the present example \$100,000) effectively gives rise to tax for the purchaser. Following this example further, and assuming that the purchaser of the \$200,000 home is a first-time home buyer, the said purchaser would owe tax of \$9,000 on the purchase.

The Canadian Home Builders Association proposed instead to tax the first sale after 1990 of every existing home on January 1, 1991, and to disregard subsequent sales of the same property. Under this approach, the vendor of the

existing home bearing tax would not be credited with such tax on a subsequent acquisition.

(iii) Views of the Committee

The Committee believes it is inequitable and potentially distortionary to tax only sales of new housing. The Committee believes that this could cause harmful distortions in the marketplace and lead to the realization of windfall gains by existing homeowners. The Committee also believes that there is merit in the proposition that a tax applying only to new housing could potentially alter consumer choices.

Although, as a matter of theory, one could argue as the Department of Finance does, that the proposed housing rebate effectively negates any possible distortions, the Committee is concerned, even should this be true, that the housing market could nevertheless be affected by consumer perceptions that new housing is more expensive than tax-paid existing housing. The Committee thus considers that the root of the problem is not necessarily whether the housing rebate is sufficient but, rather, that industry participants and consumers, faced with an apparent if not real distortion, could alter their behaviour.

In light of the foregoing, the Committee favors the taxation of existing housing stock. As fully explained in Part C, the Committee proposes that the tax base be computed in accordance with an incremental spending or "trade-up" approach.

4. Other Personal-Use Properties of Individuals

(i) Technical Paper Proposals

The Technical Paper proposes that sales of personal-use real properties (for example country properties, non-commercial hobby farms and other non-business land) by individuals or trusts (all the beneficiaries of which are individuals), other than real property which was used or rented by the vendor in the course of a taxable commercial activity, or real property which is sold in the course of a business, be exempt.

(ii) Representations to the Committee

The Committee did not received formal representations on personal-use properties other than to the extent discussed above.

(iii) Views of the Committee

Given that the Committee recommends that sales of new housing, existing housing and rental properties be taxable, it would not be consistent to exclude new and existing personal-use properties from the tax base. The Committee proposes therefore that sales of such properties be taxable in accordance with the trade up approach described in Part C.

5. Rental Buildings

(i) *Technical Paper Proposals*

The Technical Paper proposes to apply tax to the sales of new rental buildings, with no housing rebate. As long-term residential rents (one month or more) are to be exempt supplies, no input tax credit will be available to owners/landlords for taxes paid. All sales of existing stock are however to be exempt.

The Technical Paper proposes a self-supply rule where a developer/landlord constructs a residential complex such as an apartment building for subsequent lease to tenants. The developer will be able to claim input tax credits in the normal manner on purchases related to the construction of the residential complex. However, the developer will be required to pay tax on the fair market value at that time that the residential complex is put into rental use. The residential complex will there often qualify as a used residential dwelling and, hence, any resale will be exempt.

This self-supply rule for residential complexes will also apply to charities, non-profit organizations and selected public sector organizations where they develop and subsequently lease residential complexes. Although the Technical Paper proposes that charities, 50% government funded non-profit organization and selected public sector organizations be eligible for partial rebates on their purchases, such rebates will not be available for the tax paid on the purchase or on the self-supply of a residential complex to the extent that the complex is used to provide residential rents at market rates in order to maintain competitive equity with private sector developers. The rebates will be available for residential complexes built to provide accommodation for students, subsidized rental housing or accommodation for the mentally or physically disabled.

(ii) *Representations Received by the Committee*

° *Competitive Equity of Tenants with House Owners*

The Canadian Home Builders Association represented to the Committee that the proposals have the effect of almost doubling the effective federal sales tax on new rental housing (which it estimates at 4.7 percent) to 9 percent. The CHBA suggested that without some form of reduction in the tax rate, there would be a sharp decline in new rental investment by the private sector until rents adjusted — which the CHBA feels could be lengthy because of provincial rent controls. Moreover, the CHBA submits that investors/landlords, and consequently tenants, will face a disproportionate amount of tax when compared to new home purchasers who benefit from the housing rebate. The Association suggests to the Committee in light of this that developers/landlords will be motivated to complete apartments buildings and to put them into use before 1991 to avoid the tax.

The Rental Housing Council of British Columbia submitted that at the proposed rate of 9%, the tax is too severe for tenants. The Council suggested that the base be broadened and the rate reduced to 5%.

The Canadian Real Estate Association also expressed its concern about the effect on a 9% tax on rent affordability.

° *Competitive Equity of Private Sector with Non-Profit Sector*

The Canadian Construction Association represented in particular that it sees an inequity in the rebate system for owner-occupied housing to the extent that owners of such housing will pay less tax on their consumption of housing services than will renters. The Association suggested that decisions to own or rent are complex and that the entire spirit of tax reform to this point has been to leave such decisions to market forces, rather than attempting to force outcomes through the tax system. The Association therefore represents that the housing rebate system as proposed to new housing should also be applied to newly constructed rental housing units.

The CHBA submitted also that private sector landlords will be at a disadvantage to charities, non-profit organizations and selected public sector organizations in relation to providing rentals because of the availability to the latter group of the rebate of 50 percent of the tax paid on their purchases which effectively reduces their tax rate to approximately 4.5%. The CHBA represented to the Committee that the private sector also provides housing to socially disadvantaged Canadians under the auspices of Government programs or through joint ventures with government bodies and that the private sector will thus be at a competitive disadvantage in providing such services because of the difference in tax rates. The CHBA emphasizes that competitive equity must be maintained.

In light of the above, the CHBA and the Canadian Construction Association submitted to the Committee that a rebate of 4.5 percentage points of tax should also apply to all new rental housing, including market housing.

The CHBA and the Canadian Construction Association represented furthermore that the tax operates effectively as a tax on rents given that residential rents of one month or more are to be tax exempt. Given that landlords will not be entitled to input tax credits, these Associations suggested that the tax will become part of their cost structure.

The Canadian Housing and Renewal Association and the Canadian Home Builders Association pointed out that the non-profit sector will only receive rebates on the tax paid on the purchase and self-supply of a residential complex to the extent that the complex is used for purposes such as subsidized rental housing and not for providing market rates. These Associations submitted that the notions of "subsidized rental housing" and "market rates" are unclear and may lead to competitive inequities due to inconsistent interpretations.

° *Definition of Long-Term Residential Rents*

The Canadian Housing Renewal Association submitted that defining long-term residential rents as being rentals of one month or more will have a severe impact on thousands of low-income singles who generally pay weekly rent in rooming houses and hotels. The CHBA represented that in major urban centres such as Vancouver, Toronto, Winnipeg and Montreal, rooming houses and hotels are the primary source of housing for low-income Canadians. The CHBA submitted that such rents will not qualify under the Technical Paper proposals as long-term residential rents and will therefore be taxable. The CHBA asks that these rents also be exempt supplies.

° *Taxation of Existing Buildings*

The Committee heard representations that the sale of existing rental buildings should also be subject to tax (see Part C).

(iii) *Views of the Committee*

° *Housing Rebate*

The Committee concurs that the proposed taxation of new rental construction at 9% and that of most new residential construction at 4.5% potentially provides a comparative advantage to homeowners over residential renters.

As owners/landlords are not to be entitled to input tax credits for the tax paid on the acquisition of a new rental building, they will likely seek to recover the additional costs otherwise borne by them from tenants through higher rents.

By recommending that all real property transactions be taxed at a 5% rate, the Committee feels that it is placing homeowners and renters on an equal footing and is thereby remedying the above-noted problem.

The Committee notes that denying an input tax credit to landlords for operating costs does not discriminate against tenants in favour of home owners. Under the Technical Paper proposals, both homeowners and landlords will be liable to pay tax on operating costs that qualify as taxable supplies. Although landlords will likely seek to pass on the cost of the tax to their tenants, the tenants should bear no greater cost to that borne by homeowners, assuming the level of expenditures by both is equal, because the taxes paid by homeowners on housing operating costs are also not creditable.

° *Competitive Equity Between Profit and Non-Profit Sectors*

The Committee agrees with the representations that it has received that where the private sector competes with the non-profit sector, the Technical Paper

proposals may confer a tax advantage on the non-profit sector by rebating one-half of taxes paid to the latter. The Committee concurs furthermore that allowing rebates to the non-profit sector on the acquisition or self-supply of a building where the building is to be used to provide subsidized rental accommodation may lead to inequities, uncertainty, and introduces difficulties of interpretation.

As noted below in the recommendations, the Committee proposes that, rather than extending the housing rebate to new rental properties, sales of all such properties as well as other real property be taxable at a 5% rate in accordance with the trade-up approach (see Part C). As a 5% rate is also proposed for new residential housing stock, rental properties will no longer receive unequal treatment.

Although the Committee recommends that all real property transactions be taxed at 5%, this will not entirely remove the competitive inequities between the private sector and the non-profit sector where rebates are paid to the latter.

Therefore, the Committee recommends:

36. That rebates not be paid to charities, non-profit organizations and selected public sector organizations for taxes paid on real property acquisitions or by application of the self-supply rule.

° *Short-Term Residential Rents*

The Committee acknowledges that the definition of long-term residential rents may exclude rentals in rooming houses and hotels by the needy. The Committee recognizes however that the removal of the minimum time-period of one month would allow the daily rental of hotel or motel rooms to be an exempt supply. The Committee feels that an appropriate approach to address this issue would be to recommend that per diem rentals at a cost of twenty dollars or less be exempt. The Committee hopes that this would cover the cost of rentals in rooming houses while not capturing the usual cost of a commercial hotel or motel room.

Therefore, the Committee recommends:

37. That per diem rentals of residential units at a cost of \$20 or less be exempt supplies.

° *Taxation of Existing Rental Stock*

For the same reasons as that already discussed for existing residential housing, the Committee concurs that providing an exemption for sales of existing rental stock may lead to distortions. Therefore, the Committee recommends that the sale of existing rental stock should also be taxable in accordance with the trade-up approach described in Part C.

6. Commercial Real Properties

(i) Technical Paper Proposals

The Technical Paper proposes that sales of new and existing commercial real properties be taxable at 9%. A purchaser of a commercial real property is to be allowed an input tax credit to the extent that the property is for use in a commercial activity, subject to two exceptions. First, no input tax credit is to be allowed for the commercial use by an individual of any real property where the property is primarily for the individual's personal use. Second, the same rules as for capital property are to apply to real property acquired by a charity, non-profit organization or selected public sector organization: this will mean that an input tax credit will only be allowed if the real property is acquired primarily for use in a commercial activity; otherwise, no input credit will be permitted.

The Technical Paper proposes a number of change-of-use rules that are to apply if the use of commercial property changes significantly.

(ii) Representations Received by the Committee

The Committee did not hear specific representations of broad scope with regard to the application of the tax to commercial real properties. The Urban Development Institute represented however that it has significant concerns that purchasers of commercial real estate will be required to finance the 9% tax from their own funds until the point in time that it is refunded. The UDI submitted that the tax will not form part of the value of the property for long term financing purposes and that thus, at closing, the purchaser will be required to provide additional equity for a short term to fund the additional 9% of the purchase price.

The Urban Development Institute (UDI) submitted furthermore that the potential cash flow disadvantages to most purchasers would be aggravated because of the requirement that the purchaser secure a clearance certificate from the vendor before an input tax credit can be claimed. The UDI fears that the payment to purchasers of input tax credits will be delayed as, under the proposals, it is the vendor who will be required to remit the tax and, because of this, Revenue Canada will wish to audit the vendor's remittance before it consents to sending to the purchaser the amount in respect of his input tax credit.

(iii) Views of the Committee

The Committee generally concurs with the proposed treatment of commercial property except that the Committee proposes that acquisitions of commercial property also be taxed at 5%. The Committee notes that to the extent that a purchaser of a commercial property is entitled to a full input tax credit for taxes paid on the acquisition of the property, the purchaser should generally be indifferent to the tax rate, except to the extent that it must finance input tax credit refunds. The Committee notes that the reduction in tax rate will benefit charities, non-profit organizations, selected

public sector organizations and financial institutions to the extent that they do not make taxable supplies.

The Committee notes that as taxes payable on the acquisition of commercial properties are fully recoverable through the input tax credit rules, the trade-up approach is inapplicable to such properties.

With regard to the provisions relating to clearance certificates, the Committee believes that this requirement will delay the ability of purchasers to claim input tax credits as their right to do so may depend on whether the vendor remitted the tax and on the amount of his remittance. The Committee concurs with the representation that it has received to the effect that, where a purchaser purchases a property having a value in excess of \$1 million, the purchaser should be liable to remit the tax.

Therefore, the Committee recommends:

- 38. That, where the value of a commercial property exceeds \$1 million, the purchaser, rather than the vendor be required to remit the tax. The vendor should, in these cases, be required to notify Revenue Canada of the sale by sending a form to this effect.**

7. Renovations

(i) Technical Paper Proposals

The Technical Paper proposes to apply specific rules where, in the course of a business, a home is purchased, renovated and sold.

The rules proposed by the Technical Paper distinguish between substantial renovations and non-substantial renovations. A substantial renovation is to mean a renovation that incorporates no more of the original building than the external and interior supporting walls, roof, floors, staircases and the foundation. The Draft Legislation adds that the conversion of a building that is not a residential complex to use as residential complex will be deemed to be a substantial renovation, whether or not the conversion involves the renovation or alteration of the building.

The difference between a substantial renovation and a non-substantial renovation lies in the extent of the application of the tax when the property is resupplied. Where the renovation is a substantial renovation, the resupply or the renovated dwelling is to be treated similarly to the sale of a new home, meaning that the full value of the land and building are to be fully taxable. Where the renovation is a non-substantial renovation, only the value added by the renovator is to be taxable on resale.

(ii) Representations to the Committee

The Committee heard representations from the Canadian Home Builders Association to the effect that the rules governing substantial renovations are technically deficient and distortionary. Because the Technical Paper proposes that the sale of used residential buildings be exempt, the CHBA submits to the Committee that the proposals

lead to tax cascading to the extent that the land and building are taxed a second time by application of the above-noted rules governing substantial renovations. To remedy this problem, the CHBA suggests to the Committee that renovators be entitled to input tax credits for taxes paid on the purchase of buildings to be renovated.

It was also represented to the Committee that the definition of a substantial renovation is so restrictive that a renovator could very easily circumvent the application of the rule.

(iii) Views of the Committee

The Committee considers that the Technical Paper proposals applying to renovations often lead to inconsistent and inequitable results.

First, the proposed definition of a substantial renovation is so limited and simple to circumvent that its application can almost be said to be elective.

Second, the rule governing substantial renovations results in tax cascading since the renovator is not to be entitled to an input tax credit for taxes paid on the acquisition of the used dwelling to be renovated because the supply of such property to the renovator would likely qualify as an exempt supply. The tax cascading occurs because the full value of the substantially renovated property including the land component is taxable on resale.

Third, the Technical Paper proposals favor the acquisition of existing housing stock from renovators who perform a less than substantial (but a material) renovation, over the acquisition of new housing. The advantage occurs because only the value added by the renovator becomes taxable at the time of sale.

Fourth, because existing stock is not to be taxable under the Technical Paper proposals and because the substantial renovation rule does not apply to individuals who are not in the renovation business, the proposals may induce an individual to purchase an existing house and to perform a substantial renovation, rather than purchasing a new house.

The Committee considers that the rules governing substantial renovations require to be reworked. However, since the Committee recommends that existing housing be taxed in accordance with the trade-up approach described in Part C, this will remove the major inequities noted. Under the Committee's proposal, the four situations described above will be treated as follows:

◦ Application of the Substantial Renovation Rule

Under the Committee's proposal, the acquisition and resale of any existing house in the course of a business will be treated as a commercial activity. The purchaser will thus be entitled to a full input tax credit for the taxes paid on the acquisition and the improvements to the house. The house will be fully taxable on

resale regardless of the nature and extent of the renovation. There will thus no longer be a need for a rule addressing substantial renovations since the supply of all new and existing homes will be taxed identically.

° ***Tax Cascading***

As discussed above, any person who, in the course of a renovation business acquires a used residential dwelling for the purposes of resale will be entitled to an input tax credit for the taxes paid. Therefore, no cascading will occur on resale.

° ***Substantial versus non-substantial renovation***

As also addressed above, all renovations, whether substantial or non-substantial will give rise to identical tax results: all taxes paid on the acquisition and improvement of buildings in the course of a business will be creditable and the full selling price of such buildings will be taxable on resale.

° ***Substantial renovations by non-business individuals***

The Committee believes that by applying the tax to the acquisition of existing homes at the rate of 5%, and by applying the tax at construction materials and services at the rate of 7%, there should be no material difference in the tax cost between acquiring a new home, and acquiring an existing home and contracting out renovations. The Committee acknowledges that an individual who acquires an existing home and self-supplies the renovations may face a marginally lower tax cost.

C) Calculation of Tax

1. Tax Rate

The Committee proposes to apply tax to taxable supplies of real property at 5%. The Committee has chosen the said rate of the basis of several considerations.

First, the Committee, as discussed later, concluded that it would be more appropriate to tax only incremental amounts of spending on non-commercial real property, rather than the full price in all cases. In light of this, the Committee felt that non-commercial real property transactions could be taxed at a slightly higher rate of tax than that proposed by the government for housing costing \$310,000 or less while achieving base broadening.

Second, the weighted-average rate of tax on all housing, as proposed by the Government, is 5.6% (because homes costing more than \$310,000 are to be taxed at effective rates varying between 4.5% and 9%). The Committee considers in light of this that a rate of 5% achieves an overall reduction in the applicable tax rate while contributing to simplicity and equality of treatment.

Third, the Committee feels that, housing being such an important element of consumption, a preferential rate of tax applicable to housing is warranted. As the general rate proposed by the Committee for other goods and services is 7%, housing, at 5%, does benefit from such a preferential rate. Under the Technical Paper proposals, as discussed in Chapter 1 housing and residential rental properties are taxed at an average rate of 6.9%.

Fourth, the Committee concluded based on the representations received by it that a tax rate of 5% would remove the need for a housing rebate program. As discussed above, the Committee felt that the housing rebate program as proposed could prove to be distortionary because of the arbitrary nature of the thresholds, the pattern of the phase-out of the housing rebate, and the relatively higher burden of tax assumed by persons purchasing homes costing more than \$310,000. The Committee accepted the proposition that the structure of the housing rebate was such that builders would avoid or limit the construction of homes in the price range of \$310,000 to approximately \$450,000. It was thus important for the Committee to remove this potential distortion.

Fifth, the Committee took account of the estimates that were put to it concerning the amount of federal sales tax currently embedded in the price of new homes. While, as discussed above, it was represented in the Technical Paper that the said amount corresponded to an average of 4.2% for the nation as a whole on newly constructed houses, the Canadian Home Builders Association represented to the Committee that the actual figure was closer to 3.7%. Although the Committee was not able on the basis of the evidence before it to resolve the issue, the Committee felt relatively comfortable in proposing a 5% rate as it gained some comfort from the assertions from the Department of Finance which the CHBA did not contest that more recent data had been used by the Department of Finance in estimating the said figure. Moreover, the Committee was reassured by the representation by the Department of Finance that, if current tables existed today, the actual percentage may be higher than 4.2%.

Sixth, the Committee felt that it was important to correct the comparative inequities that owners of rental buildings (and consequently tenants) would bear under the Technical Paper proposals in relation to homeowners due to the proposed taxation of new rental buildings at 9% rather than the 4.5% rate applicable to housing costing \$310,000 or less. A single rate of 5% corrects this anomaly.

Seventh, the Committee believes that private landlords should not bear a materially higher rate of tax on the acquisition of rental properties than that payable by competing non-profit organizations. As discussed above, private landlords would under the Technical Paper proposals pay tax at 9% on the acquisition of rental properties while competing non-profit organizations would generally pay at the proposed net rate of approximately 4.5% (after the rebate to which such organizations are entitled). A rate of 5% removes this gap.

Eighth, the Committee felt that a single rate of 5% would resolve the above-noted potential inequities in the application of the self-supply rule to private developers who supply market rents.

Ninth, the Committee judged that a 5% rate on real property acquisitions does not pose a competitive disadvantage to renovators whose materials and services are to be taxed at 7%, particularly when the renovation is self-supplied. The Committee does not feel that a 2% difference on such activities is sufficient to alter consumer behaviour.

Tenth, the Committee received many representations that the tax rates should be lowered and that the base should be broadened.

Therefore, the Committee recommends:

39. That a tax rate of 5% be apply to all taxable supplies of real property.

2. Tax Base

(i) *Elements of the Tax Base*

The Technical Paper proposes a number of rules designed to make real property transactions taxable in certain circumstances and exempt in others. Particularly, as noted above, the tax consequences of the sale of land, new housing, existing housing, rental buildings and commercial properties depend on such factors as the personal characteristics of the vendor and purchaser, the use of the property, the existence of commercial activities by the vendor, and the fact that the vendor may or may not have claimed an input tax credit in respect of acquisition or improvement of the property.

The Committee believes that the Technical Paper proposals could prove to be distorting, often inequitable, and confusing for the parties that conduct real property transactions. The Committee feels that it is preferable to include all real property transactions in the tax base (except transfers between related individuals of land used for farming purposes, and transfers of land used for farming purposes as part of the transfer of a going concern) and to tax such transactions at a lower rate. Providing an all-inclusive tax base is not only fair, but contributes immensely to achieving simplicity in the administration of the system. Under the Committee's proposals, purchasers will know that all real property acquisitions (with the exception of certain transfers of farmland as noted above) are taxable transactions. The only issue will be whether input tax credits are available.

The Committee noted throughout the present chapter examples of cases where the Technical Paper proposals lead to inconsistent or anomalous results. Appendix A compares the Technical Paper proposals and the Committee's recommendations with regard to the tax consequences of the more common real property transactions.

(ii) Calculation of Tax Base

The Technical Paper proposes generally that the sale of new construction be taxable but that the supply of existing non-commercial properties be exempt. As indicated above, the Committee proposes to include existing properties as a component the tax base. Notwithstanding this, the Committee considers that it would be unfair to apply tax to the full selling price of each existing non-commercial property at every time that it changes hands, as this would represent a turnover tax on real property. On the basis of the representations noted below, the Committee proposes a form of rollover which makes the system fair and equitable for both new and existing non-commercial properties. As previously indicated, the sale of new and existing commercial properties is generally to be taxed, but will give rise to input tax credits. Commercial properties will therefore not be subject to this methodology as it will not be required.

Two groups submitted detailed proposals to the Committee with regard to the calculation of the tax base of non-commercial properties.

The Canadian Home Builders Association was not conceptually opposed to the taxation of existing non-commercial properties. In a follow-up submission to the Committee subsequent to its appearance, the CHBA submitted that if existing housing is to be taxed, the tax should apply to the full selling price of each home in existence on January 1, 1991, at the time after 1990 that it is first sold (the "first sale" method). Afterwards, the home would be tax-paid and would thus not be taxable again on resale.

The Committee does not believe the application of the "first sale" method would be appropriate for several reasons. First, the Committee fears that the application of the tax in accordance with this method would lead to confusion and further distortions in the housing markets over time as housing would become divided into three categories: new taxable housing, tax-paid existing housing, and taxable existing housing. Second, such a tax could be argued to constitute a retroactive tax on housing gains on the date of implementation. Third, such a tax could be construed as a selective and disguised one time tax that discriminates against those individuals who have chosen to invest their funds in real estate, rather than other forms of investment.

The Urban Development Institute proposed two methods of taxing non-commercial residential stock: one that would apply to new and existing housing and personal-use properties, and one that would apply to new and existing residential rental properties.

With regard to non-commercial properties but not including residential rental properties, (new and existing homes and personal-use properties), the Urban Development Institute proposed that both new and existing properties be taxed in accordance with an approach which would define the tax base as the incremental spending by a purchaser, or, in other words, the "trade-up" in price by the purchaser. For example, a purchaser who sold a home for \$100,000 to move into a home costing \$200,000 would be taxable on his additional spending or trade-up of \$100,000. As long

as the purchaser of the \$200,000 property chose to limit his real property spending to the said property, the purchaser would escape further tax. If, instead, the purchaser subsequently acquired a higher price home or another non-commercial property, he would then again be liable for tax on the difference between the cost of the house purchased and the selling price of the house sold. Alternatively, if the purchaser chose to sell the \$200,000 property to acquire a home of a lesser price, he would not pay tax on the home purchased but would not receive a refund for the taxes paid in excess of the taxes otherwise payable on his property.

With regard to residential rental properties, generally meaning rental buildings or “speculative” real estate, the UDI proposed that a purchaser of a new or existing property be taxable on the full price of the property at the moment of purchase. However, at the time of sale, the purchaser would be refunded the tax paid on acquisition provided that an amount at least equal to the said amount was paid by the subsequent acquiror. Under this approach, taxes would effectively be payable on the purchase price of the property and on the subsequent realized gains (the “gains approach”).

The Committee believes the trade-up approach is the more appropriate method to apply to all non-commercial properties, including residential rental properties.

Although the gains approach has some merit because it operates similarly to the “tax and input tax credit” system proposed in the Technical Paper, the Committee rejected this approach for the following reasons. First, the introduction of a separate approach for rental properties would require the development of complex rules to permit the interaction of both the trade up and gains approaches; this would also pose substantial compliance and technical difficulties. (Consider for example, the tax treatment under the gains and trade up approach of a triplex of which one unit is occupied as a residence by the owner). Second, the gains approach would be cumbersome for individuals because of the necessity to maintain records of the taxes paid on capital improvements in order to claim a refund on resale. Finally, in the Committee’s view, the gains approach is not a demonstrably fairer method than the trade approach of taxing rental buildings.

The merits of the trade-up approach are numerous.

First, the trade-up approach spreads the application of the proposed tax over the housing sector (whether the property is new or existing) by imposing tax where a person purchases a more expensive house or other residential property. It is not restricted to the purchase of new homes. As housing starts in a given year account for only approximately 3% of the housing stock, the application of a tax to such stock only, as the Technical Paper proposes, can lead to serious distortions. Moreover, restricting the tax to new housing is inequitable as new home buyers bear the full impact of the tax while existing owners potentially receive a windfall by operation of normal market forces.

Second, as compared with the Technical Paper proposals, the trade-up approach operates in most cases to lessen the impact of the tax on new home purchasers since only the incremental spending, rather than the full purchase price, is included in the tax base. To illustrate, assume that a \$400,000 new home is built and that the sale of the new home entails the consequential sales of three existing homes having respective selling prices of \$100,000, \$200,000 or \$300,000. The four individuals who participate in the four transactions each upgrade their housing by \$100,000, the individual purchasing the \$100,000 being a first-time home buyer. Under the Technical Paper Proposals, the individual purchasing the \$400,000 home would incur a tax liability of \$36,000, or 9% of \$400,000. Under the trade-up approach, each of the four individuals incurs taxes payable of \$5,000, or 5% of \$100,000. This approach is thus arguably more equitable to home purchasers.

Third, while the trade-up approach would at first glance appear to impose additional costs on purchasers of existing homes, particularly first-time home buyers, this is not the case. In fact, the overall impact on housing costs should be similar to the effects of the approach proposed by the Technical Paper. To illustrate, the Committee assumes that a first-time home buyer wishes to purchase an existing home having a selling price of \$100,000. Given that the Technical Paper does not propose to tax sales of existing homes, the Committee believes that market forces may move the price of the said home to its notional tax-paid amount of \$104,500, in view of the fact that a new home should sell for this price. Under this scenario, the purchaser would under the trade-up approach pay tax of \$5,000 on the said transaction, thereby making his total cost \$105,000. The additional cost of \$500 would not necessarily be a disadvantage since the trade-up approach will allow the purchaser a notional credit equal to the taxes payable by a second purchaser on the sale of that home, usable on any subsequent purchase of non-commercial real property. For example, should the said purchaser then wish to upgrade his accommodation to a \$200,000 new home, his maximum additional tax cost would then be \$5,000, presuming that he is able to sell his existing home for at least his original purchase price. Under the Technical Paper proposals, the purchaser would face additional taxes of \$9,000 on the purchase of the \$200,000 new home with no credit for the taxes paid on the original \$100,000 purchase.

Fourth, the trade-up approach does not tax the gains of a vendor, only incremental spending. The credit that an individual receives on the sale of a property is not based on the cost of the property, but on the selling price.

The Committee recognizes however that, under the Technical Paper proposals, the economic impact of the tax on the acquisition of a new home could be lessened should the price of the purchaser's existing home have increased in price by operation of market forces (i.e. the taxation of new housing). Nevertheless, the Committee believes that the above example illustrates that the trade-up approach accomplishes explicitly what the Technical Paper proposals achieves implicitly, and thereby lessens the risk of distortion.

Moreover, the Committee recognizes that even if the prices of new homes should not increase by the amount of the tax, (the above example assumes otherwise) the total tax-paid price of existing homes should move in tandem. The taxation of the sale of existing homes should therefore not increase the cost of purchasing such a home when compared to what such cost would be under the Technical Paper proposals.

Therefore, the Committee recommends:

40. That all supplies of real property (except supplies of land used in a farming business by an individual to a related individual, or supplies of land used in a farming business as part of the transfer of a going concern) be taxable at 5%.
41. That the taxable amount of a supply of non-commercial property (new and existing housing, new and existing personal-use properties and new and existing residential rental properties) be computed in accordance with the trade-up approach, generally meaning that a purchaser of a non-commercial real property will only be liable for tax to the extent of the difference in price between the property sold and the price of the property purchased.
42. That the trade-up approach not apply to the purchase of commercial real property, meaning real property used or sold in the course of a commercial activity.

Appendix A contains a comparison of the taxation of real property transactions under the Technical Paper and the Committee's proposed trade-up approach.

Appendix B contains supplementary information on the Committee's proposed trade-up approach to the taxation of non-commercial real estate.

Appendix C is a table excerpted from a note prepared by Ernst & Young for the Urban Development Institute providing estimates of GST revenues from the housing sector under certain assumptions.

APPENDIX A

Taxation of Real Property Transactions

The table below compares the tax consequences of certain real property transactions under the Technical Paper proposals and the Committee's recommendations. Where the Committee noted inconsistencies between the Technical Paper and the Draft Legislation, the Committee relied on the Technical Paper.

Transaction	Technical Paper Proposals	Committee's Recommendations*
A. Land		
1. Sale of land in the course of a commercial activity by developer	Taxable – 9%	Taxable – 5%
2. Sale of land by individual in the course of a business	Taxable – 9%	Taxable – 5%
3. Sale of personal-use land by individual not carrying on a business	Exempt	Taxable – 5%
4. Sale of vacant land by a non-profit organization to a corporation	Exempt	Taxable – 5%
5. Sale of land by a charity, non-profit organization or selected public sector organization to an individual	Taxable – 9%	Taxable – 5%
6. Sale of vacant land by non-profit organization to an individual where the land was not used by the organization in the course of commercial activities	Taxable – 9%	Taxable – 5%
7. Sale of farmland to developer	Taxable – 9%	Taxable – 5%
8. Sale of farmland by individual to related individual	Exempt	Exempt
9. Sale of farmland as part of a going concern	Not taxable unless taxable treatment elected	Not taxable unless taxable treatment elected
B. New Housing		
10. Sale of new housing to individuals		
(a) sale of house to non-resident individual	Taxable – 9%	Taxable – 5%
(b) sale of house to resident individual who does not occupy the house as his principal residence	Taxable – 9%	Taxable – 5%

* Where commercial property is sold, the purchaser may be subject to tax on the full purchase price but may also be entitled to an input tax credit for the tax paid, in accordance with the proposals of the Technical Paper and the Draft Legislation. On the other hand, where the property is non-commercial property (housing, residential rental properties and personal-use properties such as land or second homes), the purchaser will only be subject to tax at 5% in accordance with the trade-up approach, meaning that only his incremental spending on non-commercial property will be subject to tax.

Transaction	Technical Paper Proposals	Committee's Recommendations*
B. New Housing—(cont'd)		
(c) sale of house costing \$310,000 or less to resident individual who occupies the house as his principal residence	Taxable – net 4.5%	Taxable – 5%
(d) sale of house costing between \$310,000 and \$350,000 to resident individual who occupies the house as his principal residence	Taxable – net effective rate varies between 4.5% and 5% depending on house price	Taxable – 5%
(e) sale of house costing between \$350,000 and \$400,000 to resident individual who occupies the house as his principal residence	Taxable – net effective rate ranging between 5% and 9% depending on house price	Taxable – 5%
(f) sale of house costing \$400,000 or more	Taxable – 9%	Taxable – 5%
11. Sale of new house to corporation	Taxable – 9%	Taxable – 5%
C. Existing Housing		
12. Sale of existing house by individual not carrying on a business to individual	Exempt	Taxable – 5%
13. Sale of existing house by individual not carrying on a business to a developer	Exempt	Taxable – 5%
14. Sale of existing house by individual carrying on business of trading real property and who claimed an input tax credit in respect of the property	Taxable – 9%	Taxable – 5%
15. Sale of substantially renovated existing house by individual carrying on a renovation business	Taxable – 9%	Taxable – 5%
16. Sale of substantially renovated house by individual not in the renovation business	Exempt	Taxable – 5%
17. Sale of less than substantially renovated house by individual not carrying on a business	Exempt	Taxable – 5%
18. Sale of less than substantially-renovated house by renovator	Exempt (Renovator pays tax on value added by application of self-supply rule)	Taxable – 5%

* Where commercial property is sold, the purchaser may be subject to tax on the full purchase price but may also be entitled to an input tax credit for the tax paid, in accordance with the proposals of the Technical Paper and the Draft Legislation. On the other hand, where the property is non-commercial property (housing, residential rental properties and personal-use properties such as land or second homes), the purchaser will only be subject to tax at 5% in accordance with the trade-up approach, meaning that only his incremental spending on non-commercial property will be subject to tax.

Transaction	Technical Paper Proposals	Committee's Recommendations*
D. Rental Buildings		
19. Sale of new rental building to private sector landlord	Taxable – 9%	Taxable – 5%
20. Sale of new rental building to non-profit organization qualifying for rebate	Taxable – net 4.5%	Taxable – 5%
21. Sale of existing rental building when vendor did not claim input tax credit	Exempt	Taxable – 5%
22. Sale of existing rental building where vendor claimed input tax credit	Taxable 9%	Taxable – 5%
E. Other Personal – Use Properties		
23. Sale of cottage by individual	Exempt	Taxable – 5%
24. Sale of cottage by renovator in the course of business – input tax credit claimed	Taxable – 9%	Taxable – 5%
F. Commercial Buildings		
25. Sale of new commercial building used exclusively for commercial purposes by vendor	Taxable – 9%	Taxable – 5%
26. Sale of existing commercial building used exclusively for commercial purposes by vendor	Taxable – 9%	Taxable – 5%
27. Sale of hotel or motel	Taxable – 9%	Taxable – 5%

* Where commercial property is sold, the purchaser may be subject to tax on the full purchase price but may also be entitled to an input tax credit for the tax paid, in accordance with the proposals of the Technical Paper and the Draft Legislation. On the other hand, where the property is non-commercial property (housing, residential rental properties and personal-use properties such as land or second homes), the purchaser will only be subject to tax at 5% in accordance with the trade-up approach, meaning that only his incremental spending on non-commercial property will be subject to tax.

APPENDIX B

SUPPLEMENTARY INFORMATION ON TRADE-UP APPROACH

The present appendix contains additional comments on the trade-up approach, along with an example of its application and the identification and brief discussion of certain technical matters which the Committee recognizes will need to be addressed.

1. Additional Comments on Trade-Up Approach

The Committee proposes that the trade-up approach apply to the taxation under the GST of non-commercial property, meaning residential real property: owner-occupied houses, rental properties of any size and personal-use real properties such as personal-use land and second homes such as cottages and country properties. Commercial properties are to be taxed in accordance with the "tax and input tax credit" system proposed in the Technical Paper; they will thus not be submit to the trade-up approach.

The trade-up approach will apply to any person who purchases or sells non-commercial property. Thus, individuals, corporations, partnerships, trusts and other persons will be subject to it in respect of their non-commercial property.

The Committee selected the trade-up approach as the means of taxing purchases of non-commercial property on the basis of its belief that, while it is preferable to apply tax to the purchase of both new and existing properties, the Goods and Services tax should only apply to incremental amounts of spending on non-commercial property subsequent to the date of implementation of the tax.

Under the trade-up approach, the tax to be paid as a result of an acquisition by a person of a non-commercial real property corresponds to the difference between the taxes otherwise payable on the acquisition of the property and the unused credit of the person, defined as the "unused portion" of the aggregate of taxes paid on previous sales of non-commercial property by the person. The "unused portion" of such taxes is calculated as the total taxes collected by the person on previous sales of non-commercial property, less the proportion of such taxes that, through the credit mechanism, the person has used to offset his taxes otherwise payable on other acquisitions of non-commercial real property.

The system is to be designed so that when a person makes a taxable supply of a non-commercial real property, the purchaser be liable to pay tax of 5% on the purchase price, subject to the availability of offsetting unused credits. Moreover, the person

receives a national credit equal to the taxes paid by the purchaser. The said credit will be available to the vendor during his lifetime to offset taxes otherwise payable by him on other acquisitions of non-commercial property. The system will not in this regard distinguish between types of non-commercial property: credits "earned" on the sale of any type of non-commercial property will be usable against taxes otherwise payable on the purchase of any type of non-commercial property. For example, a person will be entitled to use a credit earned on the sale of a house against taxes otherwise payable on the purchase of a rental property or cottage.

Credits earned on the sale of non-commercial property will not be refundable. Rather, they will only be usable against taxable otherwise payable on other purchases, as just discussed.

The Committee recognizes that, under the proposed approach, an individual may suffer unintended consequences when he is obliged to purchase a house which he intends to use as his principal residence without having had an opportunity to sell his current residence. Were it not for the special relieving provision explained below, the individual would not be in a position to use the credit on the sale of the current residence, when ultimately sold, against the taxes paid on the purchase of the new residence. In order to provide relief in this situation, the Committee proposes that any taxes paid by a person on the purchase of a principal residence be refundable to the extent of any credit which arises within one year from the date of purchase of the new principal residence on the sale of a previous principal residence. For example, should an individual who owns a principal residence having a value of \$100,000 be obliged to purchase a new principal residence costing \$200,000 before selling the other residence, the individual will pay tax of \$10,000 on the acquisition of the \$200,000 residence but, if he sells the previous house within one year of the purchase of the new house, will be entitled to a refund of \$5,000. He will therefore be in the same position as if he had sold the first house before purchasing the new house.

The trade-up approach generates additional revenues for the Government when a person permanently reduces his spending on non-commercial property.

This will generally occur when a person sells non-commercial property and does not reinvest the proceeds in other non-commercial property. The more common circumstances of such an occurrence are death, retirement, emigration, or changes in investment strategies.

2. Example of application of trade-up approach

Example

Facts:

- ° Individual A owns a home purchased in 1965 at a cost of \$30,000, and that has a value of \$200,000 in 1992;

- In 1992, Individual A chooses to sell the said home and to purchase a larger home costing \$300,000 from Individual B who is a retiree and would like to move into a condominium costing \$150,000; and
- Individual A sells his home for \$200,000 to Individual C who is a first-time home buyer.

Tax Consequences:

Individual A

- Individual A will not pay any tax on the sale of his home but will pay tax at 5% on his trade-up of \$100,000, or \$5,000; and
- Individual A will on the eventual sale of any of his new property, be entitled to carry a credit until death, equal to the tax collected on the sale of the said home. The credit will not be refundable, but will be available to offset taxes paying on a subsequent purchase.

Individual B

- Individual B will not pay tax on sale of his home; and
- Individual B will receive a credit of \$15,000 ($\$300,000 \times 5\%$) on the sale of his home, to be used to offset taxes payable on a subsequent acquisition. In the present case, Individual B will not be liable to pay tax on the purchase of the \$150,000 condominium because the tax of \$15,000 paid on the sale of the \$300,000 property exceed the taxes of \$7,500 otherwise payable on the purchase of the \$150,000 property. The remaining unused credit of \$7,500 will not be refundable to Individual B, but will be available until the death of Individual B to offset taxes payable by him on subsequent purchases of non-commercial property.

Individual C

- Individual C will be liable to pay tax of \$10,000 ($\$200,000 \times 5\%$) on the acquisition of the \$200,000 house because the full purchase price of the property corresponds to his incremental spending on non commercial property. This tax corresponds roughly to the amount of federal sales tax embedded in present house prices.
- If Individual C sells the home during his lifetime, he will benefit from a credit as discussed above, of 5% of the consideration received on the sale.

Although the above example is based on the purchase of homes by individuals, the Committee proposes that the trade-up approach not discriminate between types of non-commercial properties, as discussed above.

3. Specific Technical Issues addressed by the Committee

The Committee has identified certain technical issues that need to be addressed. These are outlined below very summarily and only for discussion purposes. The Committee recognizes that other issues will need to be addressed.

A. Credit Accounts

In order to simplify the system, persons should be permitted to “bank” unused credits in a “pool” or special purpose account. The operation of the account will be quite simple: the balance of the account will increase when a person sells real property and will decrease when a person acquires of real property and uses all or a portion of the account. The account will increase when a person pays taxes owing and will decrease where the person incurs tax liabilities.

As stated above, the system will not discriminate between types of non-commercial properties the sale of which is a taxable supply. It follows that the account will not either so discriminate. This will simplify the administration of the system and avoid the occurrence of untoward problems created by timing differences between purchases and sales.

Example

Facts:

- In 1992, X purchases a house costing \$200,000. X does not own other real property on that date;
- In 1993, X purchases land at a cost of \$100,000;
- In 1994, X sells his house for \$300,000 and purchases a cottage at a cost of \$50,000 and a rental property at a cost of \$400,000; and
- X retires in 1996, sells his land for \$200,000, his cottage for \$100,000 and his rental property for \$500,000. X uses a portion of the funds to purchase a condominium costing \$250,000.

The above transactions will be recorded as follows in the individual’s account:

CREDIT ACCOUNT

Additions

• Payment of taxes on 1992 house purchase	\$10,000
• Payment of taxes on 1993 land purchase	\$5,000
• 1994 house sale \$300,00 x 5%	\$15,000
• Payment of taxes on 1994 purchases (\$450,000 – \$300,000) x 5%	\$7,500
• 1996 sales of land: \$200,000 x 5%	\$10,000
• 1996 cottage sale: \$100,000 x 5%	\$5,000
• 1996 rental property sale: \$500,000 x 5%	\$25,000
	<u>\$77,500</u>

CREDIT ACCOUNT

Reductions

• 1992 house purchase: \$200,000 x 5%	\$10,000
• 1993 land purchase: \$100,000 x 5%	\$5,000
• 1994 Cottage purchase: \$50,000 x 5%	\$2,500
• 1994 rental property purchase: \$400,000 x 5%	<u>\$20,000</u>
	\$37,500
Account balance before 1996 condominium purchase	\$40,000
Taxes otherwise payable on 1996 condominium purchase: \$250,000 x 5%	<u>(\$12,500)</u>
Unused credit at the end of 1996	<u>\$27,500</u>

Although the above calculation may seem complex, a person can simply at any one time calculate his unused credit as 5% of the difference between his lifetime sales of non-commercial properties and his lifetime purchases by him of such properties, plus lifetime taxes paid. Thus, should X wish to calculate his unused credit after all of these transactions, X could proceed as follows:

Lifetime Sales

1994 house sale	\$300,000
1996 land sale	\$200,000
1996 cottage sale	\$100,000
1996 rental property sales	<u>\$500,000</u>
	<u>\$1,100,000</u>

Lifetime Purchases

• 1992 house purchase	\$200,000
• 1993 land purchase	\$100,000
• 1994 cottage purchase	\$50,000
• 1994 rental property purchase	\$400,000
• 1996 condominium purchase	<u>\$250,000</u>
	<u>\$1,000,000</u>
Difference between sales and purchases	<u>\$100,000</u>
5% of difference	\$5,000
Add: lifetime taxes paid (see credit account)	<u>\$22,500</u>
Unused credit at the end of 1996	<u>\$27,500</u>

B. Rollovers to Spouses

The tax should not apply to dispositions of non-commercial real property to spouses, whether inter vivos or on death. Unused credits of a person should also be transferable to a spouse inter vivos or on death.

C. Trade Downs

The rules as proposed above will not entail a loss of credits for persons who voluntarily reduce non-commercial real property holdings. Therefore, individuals who

for reasons of emigration, separation, divorce, or for reasons of personal choice reduce their spending on real property will not lose credits arising from such dispositions.

D. Splitting of Credits on Marriage, Separation or Divorce and Common Law Arrangements

The Committee proposes that the allocation of credits between spouses and common law spouses both during and after marriage or cohabitation be governed by family law.

E. Collection and Remittance of Tax

The Committee proposes that the purchaser rather than the vendor of non-commercial property bear the obligation to remit the tax.

The Committee proposes that vendors of non-commercial property be required to send a notice of the sale to Revenue Canada within ten days of the sale and that the purchaser be obliged to remit any taxes within thirty days of the sale.

APPENDIX C
Table
Estimates of GST Revenue
from the Housing Sector, 1991

	<u>GST Revenues</u> <u>\$ millions</u>	
Existing Proposal (as in the GST Technical Paper)	3,000	
Alternate Proposal	50-Year Ownership	40-Year Ownership
GST Payable on Sales of:		
1. New Construction (a)	2,170	2,170
2. Existing Homes of owners who exit the market permanently (b)	1,013*	1,266*
3. Vacation-properties of owners who exit the market permanently	55*	69*
4. Existing homes and vacation properties of owners who trade down @ 10% of (2) and (3)	107	133
5. Rental-properties of owners who exit the market permanently	<u>178</u>	<u>178</u>
NET REVENUES FOR 1991	<u>3,523</u>	<u>3,816</u>
Annual Interest on Float	<u>29</u>	<u>29</u>
TOTAL	<u>3,552</u>	<u>3,845</u>
MIDPOINT (Average of 2 totals)	<u>3,684</u>	

* The estimate in Column 1 is based on an average turnover of 2%, which implies an average owner occupancy (of the same or different residences) period of 50 years. Column 2 is based on an average turnover of 2-1/2% (i.e. a 40-year owner occupancy period).

(a) 5% of estimated value of new residential construction as estimated by the Department of Finance.

(b) based on 127,037 housing sales at an average price of \$159,439.

Source: This table is excerpted from a Note prepared by Ernst & Young for the Urban Development Institute providing estimates of GST revenues from the housing sector under the existing and alternate proposals. It is based upon a number of assumptions described in the Note. A full copy of the Note is available upon request from the Committee.

A) Technical Paper Proposals

Charities are currently given special recognition for Canadian tax law purposes through exemption of their income from income tax and through the tax credit granted in respect of donations to a registered charity. They are generally not given special status under the existing federal sales tax system, except to the extent that remission of sales tax is occasionally granted for certain large capital projects carried out by charities.

The Technical Paper proposes to provide special status for charities under the Goods and Services Tax (GST), but not to the extent that was sought in submissions before the Committee. The rules are, in general:

The definition of charities is extended to include registered amateur athletic associations as well as registered charities as defined under the *Income Tax Act*;

Supplies sold by charities will in general be exempt from GST, except for supplies “which are of a type generally made by commercial businesses”.

Charities as defined under GST will have the automatic right to a rebate of 50% of the GST paid on their purchases of taxable supplies to the extent that these are not recoverable as input tax credits.

The activities of non-profit organizations cover a wide range, including social services, sport, recreation, housing, lobbying, interest groups, and professional associations. Some non-profit organizations function almost as charities, some are clearly involved in working for the general welfare, and some — such as private clubs or trade associations — are primarily concerned with serving their members. The Technical Paper also provides these groups with special status, but does so on a more limited basis than is provided to charities, presumably because of the diversity of these organizations. The rules for non-profit organizations are, in general:

The definition of non-profit organizations (NPO) will be the same as the very broad definition provided under the *Income Tax Act*, i.e. such an organization can be run for social welfare, civic improvement, recreation, “or for any other purpose except profit” and no member or shareholder can draw any income from the organization as a personal benefit.

Supplies by non-profit organizations “made in the course of a commercial activity” will generally be taxable under GST under specifically identified as exempt.

NPOs which are more than 50% funded by governments (taking all levels together) will have the right to a rebate of 50% on GST paid on their purchases which is not recoverable through the input tax credit system.

Non-profit nursing homes will qualify for the 50% rebate even if less than 50% funded by government.

The Committee heard from a wide variety of non-profit and charitable groups, particularly in the arts. The special concerns of arts and sports organizations are discussed separately at the end of this chapter, but many of the issues that they raised touch on other types of NPOs and charities. The Committee's proposals for taxing rental units built or acquired by co-operative and non-profit housing groups are set out in Chapter 7.

(i) General Impact of GST

There was no question raised before the Committee that charities and NPOs deserved special treatment under the GST; the issue was, how much? It was submitted before the Committee that the 50% rebate provided to charities and qualifying NPOs was inadequate and would result in an increase in the cost of providing important charitable and social services. A number of witnesses argued for 100% rebate or for zero-rating of charitable and non-profit activities.

Apart from the arts sector, little evidence was put forward to evaluate whether the 50% rebate is an appropriate offset to the increase in costs created for charities and non-profit organizations under the proposed GST. Nor was it specifically defended by the Department of Finance.

Finance officials told the Committee that the Department's objective in drafting its proposals for this sector was to strike a balance that would recognize the important social purpose that charities and some NPOs accomplish in society, but also establish "a reasonable amount of competitive equity with private sector suppliers who may be providing very similar services".

Out of this desire flowed the rule that charities will generally be exempt from GST on their sales, except for certain cases, while non-profit organizations will generally be taxed unless they are specifically exempt.

Depending upon their activities, the impact of the GST may vary widely for different charities and non-profit organizations. While varying rates of rebate were proposed for the four so-called MUSH sectors, no such proposal was made for charities and non-profits. In the Committee's view, there is no doubt that having more than one rate of rebate for this group would contribute substantially to making the GST system more complex.

Many of the typical expenditures of charities and non-profits which are affected by the GST were not previously taxed under the FST. Examples are postage, commercial rents, and fees for legal, accounting, fund-raising, public relations, editorial, and other services. Services

such as air travel, telecommunications, printing, and the purchase of equipment and supplies were taxable under the FST as well as under the GST.

The following example illustrates how the tax on inputs under the GST may affect a charity or a non-profit organization more than 50% funded by government, compared with the present treatment under the manufacturer's sales tax (the impact of GST on supplies made by such organizations is considered separately below). This estimate assumes that suppliers eliminate the present sales tax in their price before computing GST, and makes no estimate for any general effect of the GST on costs or revenues.

Impact of GST on Charities and Non Profit Organizations

	Under FST	Under GST
<u>Income</u>	\$1,000,000	\$1,000,000
Grants, donations, etc.		
<u>Expenditures</u>		
Wages and salaries	600,000	
Rent, postage, services etc. not subject to FST	250,000	
Indirect FST on above	(5,000)	
Printing, communications, travel, equipment, ect. subject to FST	150,000	
FST on above (taxable value \$106,000)	(14,300)	
Total direct and indirect FST	(19,300)	
Purchased goods and services subject to GST		\$380,700
Total direct and indirect FST	19,300	
GST at 9%, less 50% rebate		17,131
GST at 7%, less 50% rebate		13,325

The potential impact of the GST depends a great deal on one's estimate of the level of the hidden federal sales tax which is currently paid by charities and NPOs as a component of their purchases rather than as a direct cost. In the example, this indirect FST is estimated at 2% of the value of purchases not directly liable to tax. This would cover such items as tax paid on the office equipment, delivery van, or overheads of a supplier or landlord which does not charge federal sales tax directly.

Bearing these uncertainties in mind, this example suggests certain conclusions:

- The rebate of 50% for charities and qualifying non-profits will lead to GST burden approximating, or less than, the present FST.

- ° While the direct federal sales tax to be paid may increase, the total GST liability may still be reduced once indirect FST has been calculated.
- ° The higher the wage and salary component in a charity's budget, the less sensitive is its budget to the change to GST.
- ° A 7% GST rebate with 50% rebate is almost certain to reduce the sales tax burden on charities' inputs from the present level.
- ° The loss of the 50% GST rebate for a non-profit organization can be relatively costly, i.e. about 1% of the overall budget in the above example; hence some relieving provision may be worth considering.
- ° The GST on non-profit organizations which are not eligible for the rebate will tend to be substantially higher than the FST burden that these organizations are now carrying.

(ii) Policy Options

There are a number of ways to provide special treatment under a value-added tax to charities and qualifying non-profit organizations. The main options are:

- * Tax charities and qualifying NPOs on their purchases at the full rate, but reduce the burden by providing a rebate on GST paid. This is the Technical Paper's proposal.
- * Zero-rate charities and qualifying non-profit organizations, so that their inputs are taxed at zero per cent or in other words, they pay no tax.
- * Tax charities and qualifying NPOs at a separate rate, say at 4.5% instead of the 9% proposed in the Technical Paper.
- * Tax charities and non-profits in full, as is done under the New Zealand GST, but offset the extra costs with an increase in other subsidies.

These options were not raised in any depth in the briefs or the evidence received by the Committee; rather, the focus of the witnesses was on the treatment of supplies by their organizations or sector.

The Committee concluded that zero-rating or taxing charities and NPOs at a separate rate would involve a great deal of administrative complexity, particularly for the business sector supplying the sector, would create some potential for abuse and therefore should not be recommended. Moreover, zero-rating of these organizations would cause a revenue loss of perhaps \$100 million, that is the value of the remaining 50% of GST that will be collected after rebates to this sector. This question is dealt with at greater length in the next section.

The Committee also concluded that in view of the important services provided by charities and many non-profit organizations, it would not be appropriate to tax them at full rates with the promise that some offsetting revenues would be provided by Charities would not be assured that the grants would offset their extra costs in GST; some charities could be ineligible or may not wish any form of direct government assistance.

With respect to the rebate, the proposed rate of 50% appears to be adequate to maintain or even improve the tax position of charities and non-profit organizations, relative to the existing FST. This will be especially likely in the event that the Committee's recommendations for a 7% rate of GST are accepted. However, the Committee believes that the Department of Finance should carry out additional research and consult with affected charities and NPOs to confirm that the 50% rebate figure is satisfactory.

Therefore, the Committee recommends:

43. That, as proposed in the Technical Paper, charities and qualifying non-profit organizations should get special treatment under the Goods and Services Tax in recognition of their important services to the community. In the form of a 50% rebate on Goods and Services Tax paid on their purchases.
44. That, the Department of Finance review the proposed 50% rate of rebate with affected charities and non-profit organizations to ensure that it is equitable and that the overall federal sales tax burden of this sector does not increase with the introduction of the Goods and Services Tax.

(iii) The Question of Zero-Rating

Many exemptions to the federal sales tax are now provided through a certificate system, which allows holders — such as hospitals and municipalities — to purchase supplies free of FST. Under a value-added tax, this privilege can be achieved by the practice of zero-rating, whereby supplies are taxed at a zero rate but the vendor can claim full input credits. Many witnesses sought to have tax-free status or zero-rating for their organization or sector, in view of its importance or its contribution to society.

Zero-rating is an important part of the GST system in two areas, food and export sales, which amount to a substantial portion of Canada's gross domestic product. These are areas which can be relatively easily identified for tax purposes. Food is identifiable because of the nature and use of food products. Although some border problems exist; exports can be readily identified since evidence of shipment out of Canada or importation into a second country will generally be available.

Sales to charities or qualifying non-profit organizations, to the MUSH sector or to the provinces — where the same arguments for zero-rating are sometimes made — would be much more difficult to identify because they would depend on providing the status of the purchaser. This is a major reason the Committee is reluctant to recommend zero rating beyond the areas covered in the Technical Paper.

There are also strong administrative and compliance reasons for recommending a rebate system over a system of zero-rating or exemptions. There are 60,000 charities in Canada and hundreds of thousands of non-profit organizations ranging from the Business Council on National Issues through to tiny community sports clubs. Under zero-rating, each qualifying charity or NPO would probably have the right to issue certificates of their eligibility for the special rate. Certificates would have to be issued with every zero-rated purchase and retained by vendors for audit purposes. In the Committee's view, this would entail a substantial hidden compliance cost on suppliers, purchasers, and on the government.

The alternative would be to leave the decision as to eligibility of a purchaser for zero-rating up to the vendor or, in practice, an employee of the vendor who will usually have little experience in tax law and administration. If zero-rating were also to apply to the provincial governments or the MUSH sector, then a whole range of agencies, boards and commissions which are in varying degrees agents of the Crown or of a recognizable institution in the MUSH sector would become eligible for zero-rating. It can be very difficult for tax collectors to decide which of the agencies should qualify for special status under GST; but vendors and their agents would be required to make this kind of decision on a daily basis.

The Technical Paper proposes to make the vendor as well as the customer liable for the payment of GST. Hence a mistake discovered through audit could lead to a vendor having to pay a substantial sum on account of GST which, through error, was not collected at the time of a sale. On the other hand mistakes or deliberate "errors" which are made to defraud National Revenue and which are not caught can be very costly in terms of lost revenue. Zero-rating or exemption of charities and of other worthwhile sectors therefore is not in the Committee's view preferable to the rebate system proposed in the Technical Paper.

Under the GST, there will be almost 1.5 million registrants actively doing business, many of them with charities or with the MUSH sector. Determining which charity or MUSH organization should be eligible to claim rebates on GST paid is likely to be a good deal easier and more efficient than forcing every supplier to make that decision through a certificate system. Charities are particularly easy to define, since they have to be registered under the *Income Tax Act* — a simple question of fact. In the MUSH sector, there about 1200 hospitals in Canada, about 4500 municipalities, and about 250 universities and colleges. The numbers are much smaller, in other words, than the number of suppliers who would be forced to adapt their systems to a zero rate.

If a rebate system is adopted as recommended in the Technical Paper, on the other hand, the accounting by suppliers to charities and other rebated organizations will be relatively simple. Registered vendors will be required to collect and remit GST at the general rate on all taxable suppliers to this sector, just as to any other purchaser. The vendor's involvement will then end; it will be up to the charity or the MUSH institution to prove that it qualifies for a rebate.

Therefore, the Committee recommends:

45. That, in general, relief from Goods and Services Tax which is given to charities, to qualifying non-profit organizations and to public-sector organizations in Canada should be provided through a rebate system as proposed in the Technical Paper rather than through zero-rating or by providing tax-free status on purchases. The affected organizations should therefore pay the Goods and Services Tax on their purchases and get relief through rebates rather than buying goods and services free of tax.

(iv) The Level of Rebate

The Technical Paper proposes that non-profit organizations will have to receive 50% or more of their funding from federal, provincial or municipal government grants in order to qualify for a 50% rebate of the GST paid on their inputs. All registered charities will be eligible for the rebate regardless of their level of government support. A number of witnesses criticised the qualifying rule for non-profit organizations as arbitrary and asked that it be changed.

A major concern expressed to the Committee from this sector, particularly from sports groups, was that the federal government was sending out conflicting messages. Governments have been pressing sports and cultural organizations to become more autonomous by developing corporate sponsorships and other sources of revenue, and forcing them in this direction by restraining the growth in public support. Yet under the GST, non-profit organizations which succeed in reducing their dependence on government funding below 50% will suffer a significant penalty.

The apparent purpose of the 50% government funding test is to provide a relatively simple way to identify those non-profit organizations that deserve, on policy grounds, to be relieved of some of the cost of GST. This treatment is automatically given to charities and parallels the rebates which reduce the net rate of GST for municipalities, universities, school boards and hospitals — what is known in the Technical Paper as the MUSH sector.

The Department of Finance told the Committee it is prepared to look at the 50% test for non-profit organizations must have a significant amount of funding from some level of government to qualify for special treatment under the GST, the Committee agrees that the Technical Paper's proposals is arbitrary and should be changed. The Committee also believes that there should be a provision to give a partial rebate to non-profit organizations which fall just short of qualifying for the 50% rebate of GST — in other words, a notch provision. Otherwise, a non-profit organization could lose a substantial amount of rebate because of a very minor shift in its level of government funding.

The Committee considered two alternatives:

- (i) reduce the 50% test to a lower level;

(ii) authorize officials or Ministers certify non-profit organizations to allow them to qualify for a 50% rebate even if their level of government funding is below 50%.

The Committee prefers the first option because it is relatively easy to administer and because it involves an objective, rather than subjective, test that an organization is performing a worthwhile public function — i.e. that it has been granted a significant level of government funding to carry out its activities.

The Committee therefore recommends:

46. That non-profit organizations should be eligible to receive a 50% rebate of the GST paid on their purchases if they are 25% or more funded by government in a given year, not 50% as proposed in the Technical Paper. For non-profit organizations falling short of the 25% test, the 50% rebate should be reduced by one-fifth for each percentage point that the organization's funding from government falls below 25% of its revenues.

According to the Technical Paper, registered amateur sports organizations are to be treated as charities and will therefore qualify automatically for the 50% rebate. This provision does not cover the provincial sports federations, however, which carry out many of the same functions as the national sports bodies; take a substantial responsibility for developing promising young athletes; but are not registered under the *Income Tax Act*.

The Committee recommends:

47. That for the purposes of GST, provincial sports federations should be treated on the same basis as registered amateur sports organizations in order that they automatically qualify for 50% rebate of GST paid on their purchases.

In the area of the arts, the Committee believes that its proposed reduction of the required level of government funding to qualify for a 50% rebate of GST on purchases, and the rules set out by the Department of Finance to provide full input credits for performing arts organizations, should protect most arts organizations from being unduly affected by the GST. The concerns of arts and sports groups are dealt with in greater detail below.

(v) *Eligibility for Rebate*

According to the Technical Paper, qualifying non-profit organizations will have to wait until the end of their fiscal year to apply for the 50% rebate of the GST paid on their purchases, even if the sums involved are substantial. The reason offered is that eligibility will depend on the degree of government funding which they receive, and this can only be determined when the year's financial statements have been prepared.

Witnesses objected to this rule because of the effect on cash flow of delaying a GST rebate for a full year, and because of the difficulty for a non-profit organization that was close to the qualifying line of budgeting without knowing whether or not the rebate would be

available. This factor will be less important for many non-profit organizations if the Committee's recommendation for a notch provision is accepted.

The Department of Finance told the Committee that it is examining alternatives to this rule on the timing of rebates. Officials informed the Committee that the Department was seeking to strike a balance between the concerns of non-profit groups "with respect to certainty as to their eligibility", and the fact that some non-profit organizations receive one-time government funding for a specific project, and it would be "inappropriate" in such cases to base eligibility for the rebate in future years on historical information.

While these concerns may be valid in certain cases, the Committee does not feel they are sufficient to justify requiring all NPOs which may qualify for the rebate to wait for up to a year to collect it. Many non-profit organizations in such areas as social services, recreation, housing and corrections receive government funds regularly and act, in many respects, as extensions of government programs. A delay in providing their rebate for GST for a year would be equivalent to imposing a holdback of up to 2% of their budget and could therefore affect their ability to provide programs and to carry out their objectives.

Charities will be permitted to file for a GST rebate on a regular basis, and the Committee sees no reason why non-profit organizations which receive a regular flow of government funding should not be treated in the same way.

The Committee therefore recommends:

48. That a non-profit organization which qualifies for the 50% rebate of GST paid on purchases because it is substantially funded by government should be able to continue claiming the rebate on a monthly or quarterly basis rather than wait to the end of each fiscal year, as proposed in the Technical Paper, provided that it has met the qualifying test for the 12 preceding months.

(vi) Interest on Overdue Rebates

There is an anomaly between the government's proposal for paying interest on GST input tax credits after 21 days, and its proposal to pay interest on GST rebates due to charities and non-profit organizations and to the MUSH sector only after 60 days.

In its written response to the Committee's question on this subject, the Department of Finance stated that rebates "serve different policy objectives than input tax credits". According to the Department,

"Rebates are designed to confer a benefit to specific individuals or sectors. Input tax credits, on the other hand, are simply the technical means of ensuring that business inputs are fully relieved of tax and sales to final consumers are not subject to double taxation."

The Committee does not accept this distinction. If rebates of GST are paid to a charity or non-profit organization, it is because they are deemed to be carrying out important activity for the public good. This is also the case with the MUSH sector, and the Committee sees no

reason why interest on GST rebates and on input tax credits should not be paid on the same basis.

Some witnesses expressed concern at the effect of the GST on the cash flow of charities and non-profit organizations. According to the Committee's calculations, the impact is likely to be less than is feared. A charity with a \$1 million budget and fairly heavy taxable expenditures might buy \$400,000 worth of taxable supply in a year. At the 7% rate of GST, the value of the 50% rebate on GST paid by the charity would be \$14,000 per year or \$1,167 per month. At current interest rates, a two-month delay in receiving each month's rebate would cost the charity about \$30 and the total interest cost of a loan that would maintain its cash flow while awaiting the rebate would be \$381 per year, or about 0.1% of the value of its expenditures.

This calculation suggests that the value to the government of delaying the payment of interest on GST rebates is minimal, and reinforces the Committee's recommendation:

- 49. That the government should pay interest on rebates of GST to charities, to qualifying non-profit organizations and to the MUSH sector starting 21 days after filing, rather than starting after 60 days as proposed in the Technical Paper.**

(vii) Commercial Supplies

A major concern in submissions from charities and non-profit organizations was the requirement that these bodies charge tax on supplies that are considered to be commercial. The Committee was asked to change the general rule, the definition of which supplies should be taxable, and the proposed exemptions. Witnesses expressed concern about the principle of having to charge tax, about the impact of GST on people using their services, and about the cost and administrative complexity of this provision.

The Technical paper provides that supplies by charities will generally be exempt from GST, except where they are specifically designated as taxable; supplies by non-profit organizations will be taxable unless specifically exempted. The aim of this policy is to ensure relative equality in the GST charged for commercial type services, whether provided by a private business or by a non-profit organization. The Committee agrees with this policy.

The Technical Paper sets out the following rules with reference to charities charging GST:

- ° Services in the areas of research, counselling, education, and social services which are provided by charities without charge will not be subject to GST.
- ° Charities will be eligible for the small traders' exemption if supplies, or sales, that would otherwise be taxable do not exceed \$30,000. Sales of used or donated goods will be exempt from GST, as will donations received by charities.

- Any supply by a charity will be exempt if “substantially all of the day-to-day administration and operation” of the activity to provide the supply is undertaken by volunteers.
- A supply of goods or services for a nominal amount, which does not cover the direct cost of making the supply, will be exempt. Direct cost is defined as the cost of purchased inputs and excludes labour, capital and overhead expenses.
- A supply of food, drink or accommodation made “for the relief of poverty, suffering or distress” will be exempt.
- Charities will be eligible for 100% input credits on goods exported for charitable purposes.

Commercial supply that is provided by a charity will be liable for GST unless it is covered under one of the exempted categories. Hence, sales of goods or of prepared food that are carried out “substantially” by volunteers will be exempt from GST; but will be taxed if sold from a store or booth run by a charity with paid staff.

The categories of supply that will be considered to be commercial are:

- Sales of new goods and ancillary services, such as gift shop in a museum or a mail-order operation selling UNICEF cards.
- Sale of prepared food or drink in an eating establishment or provided as a catering service.
- Admissions to museums, exhibitions, professional sporting event, recreational facilities, etc. (but amateur performances and sporting events are exempt).
- Adult recreational programs except for “recreational programs established primarily for mentally or physically disabled or disadvantaged individuals”. Sports, arts and recreation programs provided by charities for children will be exempt from GST. The same exemption rules will apply to non-profit organizations.
- Commercial gambling, unless the event is undertaken by volunteers and is held elsewhere than in a commercial bingo or gambling hall.
- Rental of non-residential property, including the renting of a hall for meetings or receptions.
- Public parking rented on a regular basis.

- Sales of land or new residential housing.

As already stated, the rules for non-profit organizations are more restrictive than for charities, since supplies by these organizations are to be generally taxable under GST unless they are specifically exempted. The distinctions between the two categories are not as great as the general principles suggest, however, because the Technical Paper provides a long list of permitted exemptions from GST for non-profit organizations. These exemptions include:

- Small traders' exemption if sales of taxable goods and services do not exceed \$30,000.
- Sales by volunteers other than from a permanent retail store, i.e. at the door or in the street.
- Admissions to amateur performances and events.
- Recreational programs for children and for disabled or disadvantaged adults.
- Homemaker and home care services if provided by an agency that is provincially or territorially approved.
- Meals on wheels and similar programs.
- Membership fees in organizations provided that they do not entitle the member to receive for nothing or at a significant discount, periodicals, admissions, or other goods and services which would normally be sold.
- Trade union dues and mandatory professional dues, although an association may choose to have its dues treated as taxable supplies and thus give its members an input tax credit.
- Non-commercial gambling, on the same basis as charities.
- Supplies of non-residential real property, except for sales of land or new housing, parking, and short-term commercial rentals.
- Lodging and recreation provided at a camp and primarily for people who are disabled or disadvantaged.

Speaking on behalf of the charitable sector, the National Voluntary Organizations submitted to the Committee that an activity should not be considered to be commercial if it was carried out to raise funds for a charity or non-profit organization. It said the charging of GST should be related to the intent of the activity and not just to its nature or its comparability with the private sector. According to the NVO's brief,

“To equate charitable services with for-profit services denies the distinct character of the activities of the charitable voluntary sector. The motive of service delivery cannot be separated from the service itself.”

On this basis the National Voluntary Organizations recommended that the activities of charities should be tax-exempt, i.e. not bear GST. In an elaboration of this approach it recommended that GST be charged only for “related businesses” established by charities under the Income Tax Act, but that the sale of goods and services by charities otherwise be exempt in the same way that they are exempt for income tax purposes. This approach, it was suggested, would ensure consistency between the GST and the Income Tax Act. If the government wanted more supply by charities to be taxed, it should do so through amending the Income Tax Act definition of related businesses.

This definition is in s. 149.1(1)(j), as follows: “‘(R)elated business’ in relation to a charity includes a business that is unrelated to the objects of the charity if substantially all of the people employed by the charity in the carrying on of the business are not remunerated for such employment.” By inference, any business that is related to a charity’s objects may be carried on without affecting the charity’s non-taxable status for income tax purposes.

The Canadian Society of Association Executives, speaking for the non-profit organizations, argued that their activities were not commercial and that to label, and tax, them as such might jeopardize the non-profit status which these organizations now enjoy. The CSAE drew a distinction between for-profit activity, which by definition its members did not engage in, and added-value activity which would be taxed under the GST. It asked that the GST legislation be drafted to reflect this difference and to clarify that organizations that add value, and are therefore liable for GST, are not automatically commercial.

These two associations, and many other witnesses from the non-profit sector, raised concerns about the feasibility and costs of charitable and no-profit organizations, often with many branches, administering the Technical Paper proposals. Rich Baillie of the NVO described one large charity to the Committee with 17 staff and 70 or 80 “outposts” or local organizations:

“...the way the tax is presently described ... they will have to keep every receipt so if government auditors come in they can see it. This organization has one office in Toronto. They will have to get all of those (receipts) from across the country...In effect the 50% rebate means nothing to them. They will not be able to collect it.”

Charities and non-profit organizations raised a number of specific concerns with respect to the exemptions and override rules which will govern whether or not sales that they make are liable for GST. These are dealt with below. Concerns relating to the impact of GST on housing provided by co-operative and non-profit groups are discussed in the section on housing.

(viii) Is an Exemption Justified?

The overriding question is whether to substantially change the proposals in the Technical Paper by exempting all or most of the value of supplies by charities from GST. This would be an alternative to the patchwork of exemptions, taxable areas and special rules proposed by the government.

One reason for the concern shown by the voluntary sector is that under the GST, most taxable supply by non-profit organizations and charities will lie in the area of services which were not previously liable for federal tax rather than goods. The government has not taken an explicit stand on the amount of sales tax to be raised from the voluntary and non-profit sector, but nor do its measures appear to be directed specifically at this sector. Rather, the new tax liability is a result of the general base-broadening proposed under the GST.

A major reason for the government's decision to tax supplies by charities and non-profit organizations is its desire to maintain a level playing field with commercial organizations offering similar services. The National Voluntary Organizations, speaking on behalf of charitable organizations resisted this principle and argued that the activities of charities should be judged as a whole and should not be confined to services to the poor and the handicapped in order to be exempt. Hence even those activities that appear to be commercial, such as YMCA fitness course or health club, should be seen as contributing to the overall program of the charity and should therefore be exempt.

The Committee considered a number of alternatives for dealing with supply by charities and qualifying non-profit organizations. They included:

- (i) Provide full exemption from charging GST;
- (ii) Exempt all supply by this sector except supply by related (or unrelated) businesses;
- (iii) Exempt activity that might otherwise be taxable, if the intent is sufficiently worthwhile;
- (iv) Stick with the approach taken by the Technical Paper. This would mean taxing commercial supply, subject to the exemptions already mentioned, but allowing charities and non-profits to claim 100% input tax credit for the GST paid on related inputs, just like any business.

Another alternative was put forward by the Alberta YMCA in a meeting with MPs from that province in October. Its proposal is to exempt supply by organizations like the YMCA from the GST, but in return do away with their right to a 50% rebate on GST paid on purchases.

The impact of this proposal would vary a great deal between different charitable organizations, depending on how much of their revenues came from commercial supply and

to what extent they required outside goods and services taxable under the GST. Unless it were made optional, this approach would hurt charities with a small amount of commercial supply and substantial amount of purchased inputs on which they could claim 50% rebate of GST.

The Committee notes that the social purpose of charities and qualifying non-profit organizations is recognized in the Technical Paper by the provision of a 50% rebate on GST paid on purchases and by a lengthy list of exemptions from charging GST on supplies. The activities that are still taxable are, for the most part, those most likely to be in competition with private sector suppliers and services. In the Committee's view, it is appropriate to tax these activities under the GST even if the intent of the activity is to support the main work of a charity rather than make a profit.

The Committee recommends:

- 50. That commercial supply by charities and non-profit organizations should generally be liable to GST, subject to exemptions such as those which are provided in the Technical Paper.**

(ix) Reducing the Administrative Burden

The Committee is concerned, however, at the administrative costs and complication of taxing commercial supply by this sector and at the difficulties of trying to track the inputs related to these sales in order to provide 100% input credits like those received by business. It considered a number of options to make the administrative problems less onerous or to reduce the compliance cost of collecting and accounting for GST. The two most attractive choices were as follows:

(A): Introduce streamlined accounting so that charities and non-profits would not be obliged to track down the GST paid on inputs required to make commercial sales. The alternative would be to establish a guideline that these inputs are worth, say, an average of 50% of the value of commercial sales. It is a lot easier for a charity to add up all its commercial sales than to track thousands of invoices. Once total sales were determined, an imputed amount for inputs could be calculated and so could the total of GST input credits for the period. This would be much easier and clearer to operate than a full-fledged calculation of GST credits, the revenue implications would be minor, and charities would have a system that could be operated by small branches or by volunteers.

(B): Take the full amount of GST paid on commercial supply by the charity, deduct it from the total GST paid by the charity, and then calculate the charity's GST rebate on the remainder. This approach would simplify accounting for charities and qualifying non-profit organizations, but might result in some material reduction in GST revenue for the government. It would also provide an incentive for these organizations to develop their resources through commercial activity and to rely less on donations and government support.

The Sales Tax Counselling Society

Revenue: Donations and grants:	\$750,000	\$750,000	\$750,000
Taxable supply — books, counselling, conferences, etc.	\$250,000	\$250,000	\$250,000
Total revenue	\$1,000,000	\$1,000,000	\$1,000,000
9% GST collected on taxable supply (9/109ths)	\$20,642	\$20,642	\$20,642
Expenses, excluding wages:			
Inputs related to taxable supply (tracked by invoices)	\$135,000		
GST component	\$11,146		
All other inputs	\$165,000		
GST component	\$13,623		
Total purchases of goods and services	\$300,000	\$300,000	\$300,000
Estimated value of inputs related to taxable supply (50% of total inputs)		\$150,000	
GST component		\$12,385	
Estimated value, all other inputs		\$150,000	
GST component		\$12,385	
GST on purchases, eligible for rebate (9/109 x price)			\$24,770
GST due on sales	\$20,642	\$20,642	\$20,642
Less: GST input tax credit on actual sales	(\$11,146)		
Less: GST input tax credit on est'd sales		(\$12,385)	
GST owed before rebate	\$9,496	\$8,257	
GST rebate, 50% of GST paid on other purchases	(\$6,811)		
GST rebate, 50% of estimated GST paid on other purchases		(\$6,192)	
Remainder of GST eligible for rebate			\$4,126
Net GST to be paid or (received)	\$2,684	\$2,064	(\$2,064)
Add: GST paid in price of inputs	<u>\$24,770</u>	<u>\$24,770</u>	<u>\$24,770</u>
Total GST paid	\$27,454	\$26,834	\$22,486

The box shows how these two approaches would work for a small charity dedicated to helping people confused by sales tax, compared to the approach in the Technical Paper.

As the box shows, a streamlined method can be relatively accurate in arriving at GST liability but be considerably easier to administer. In the above example, all that is needed to make the calculation is the value of the organization's commercial supply and the value of its taxable inputs, or the total GST paid on its inputs.

The second option is also easy to calculate, but it entails a decrease of almost 20% in GST revenues. This second option would offer what amounts to a bonus to commercial activity by charities, because it reduces the effective GST rate on their sales by increasing their input tax credits. This would allow them to either reduce their prices (by about 2%) or generate greater revenues to help maintain their charitable activities.

As witnesses told the Committee, there would be substantial problems in tracking input tax credits through a charity or non-profit organization most of whose activities are exempt from GST. Allocating costs and input credits to such activities as occasional rental of facilities, or determining what share of overheads should be attributed to taxable activities, is likely to be extremely difficult. The problems of administering GST would be exacerbated in organizations that are wholly or partly run by volunteers or which operate a common accounting system, but have large numbers of local branches involved in fund-raising events.

Both of the options suggested above would be considerably easier and less costly for charities and non-profit organizations to administer than being required to track input tax credits in the conventional way. The Committee believes that a streamlined approach is needed to assist charities in accounting for commercial supply under the GST and is satisfied that an acceptable model can be developed. Affected organizations could use such a streamlined system in all cases, or it could be offered as an option to those that wish to reduce their administrative costs.

The Committee recommends:

- 51. That the Departments of Finance and National Revenue work with charities and non-profit organizations to develop a streamlined approach that would simplify their accounting for taxable supplies under the GST and reduce the related complexity and administrative costs.**

B) “Non-Profit Status”

Non-profit organizations expressed concern that because they would be taxed for GST, their activities would come to be defined as commercial and their non-profit status would ultimately be jeopardized.

The distinction between activity that is “commercial” and activity that is “taxable” is very subtle, as the Canadian Society of Association Executives acknowledged in its brief. The draft legislation defines “taxable supply” as follows:

- ° “‘Taxable supply’ means a supply, other than an exempt supply, made in the course of a commercial activity”

Its definition of “commercial activity” includes the following:

- “(a) any business carried on by a person;
- (b) any adventure or concern of a person in the nature of trade.”

The Association Executives proposed that the liability for charging GST start with the concept of business in the Income tax Act, i.e. the test that there be a reasonable expectation of profit. The GST would be charged only on those activities of the non-profit sector which were specifically set out by government. This is very close to the approach already taken in the Technical Paper with respect to charities.

As an alternative, the Association suggested avoiding the use of the terms “business” and “commercial” and using the approach adopted in New Zealand. That country’s GST legislation defines “taxable activity” as follows:

- “(a) Any activity which is carried on continuously or regularly by any person, whether or not for a pecuniary profit, and involves or is intended to involve, in whole or in part, the supply of goods and services to any other person for a consideration; and includes any such activity carried on in the form of a business, trade, manufacture, profession, vocation, association, or club.”

The Committee notes that non-profit organizations already collect provincial sales tax on the sale of goods without having thereby lost their non-profit status. There is no inherent reason why this should be different if they become liable to collect federal sales tax in the form of the GST. The Committee recognizes that the concerns of the no-for-profit sector are valid, however. Organizations are being told they must collect GST because they are carrying on a business which is deemed to be commercial. Then they risk being told by Revenue Canada that because they are running a business, they will lose their right to non-profit status and to exemption under the Income Tax Act.

The Committee therefore recommends:

52. That the government should issue an interpretation bulletin to clarify that non-profit organizations will not lose their exemption from tax under the Income Tax Act by virtue of engaging in “commercial activity” as defined for the purposes of the GST.

C) The Volunteer Exemption

The government has included what is called a “volunteer exemption” in its GST proposals at the request of charities and non-profit organizations, so that they would not be obliged to charge GST on supplies that are provided through volunteer activity. Nonetheless, certain charities and non-profit organizations expressed concern over how the volunteer exemption as proposed in the Technical Paper and draft legislation will work.

Section 3 of Part VII in the draft legislation's schedule of supplies that are exempt from GST provides for the following exemption:

3 (a) "A supply made by a charity of any property or service...where...

(d) the supply is made in the course of a business... and all or substantially all of the direct day-to-day administration and operation of the business is undertaken by volunteers."

The volunteer exemption for NPOs is much more stringent, covering only street and door-to-door sales where all the salespersons are volunteers, the consideration for each item is less than \$5, and, according to the schedule of exemptions,

"16 (d) (T)he property is not sold at an event at which supplies of such property are made by persons who carry on the business of selling such property".

This rule quite clearly excludes exemption from GST for activities such as selling hot dogs or favours at a parade or a fair, because for-profit vendors would also be present. It denies any exemption from GST on sales by a non-profit organization from a permanent establishment or store, whereas a charity could sell goods from a store, such as a hospital gift shop, if the sales and daily administration were carried out by volunteers. A non-profit organization could put on an event in a hall, such as a dance or bean supper, without charging GST but only if the admission fee were kept below \$5.

The major concern of the charitable sector is the test that "substantially all" of an activity must be by volunteers for the activity to be exempted from GST being Charged. "Substantially", in this case, is thought to mean at least 90% since this is the interpretation that has evolved under the Income Tax Act.

The National Voluntary Organizations recommended that the exemption be defined "as meaning 60% of a charity's total administration and direct service must be in the hands of volunteers." It did not specify whether this participation should be measured in time worked or by some other means.

Such a change would ensure that activities that are directed or coordinated by paid staff, but mainly carried out by volunteers, would be exempt from charging GST on their sales. But it could also mean that supplies provided by charities with a substantial base of volunteers were in practise never liable for GST. This would go against the intention of the Technical Paper that commercial supplies should have comparable tax treatment, whether they are provided by government, the voluntary sector or private business.

The Committee agrees that the volunteer exemption should be made more specific so that it is easier for affected organizations to interpret and less likely to lead to litigation. (It also agrees that there should be some reduction in the requirement for volunteer participation, recognizing that it is common for paid staff of charities to devote a substantial amount of time to organizing events though they are carried out almost entirely by

volunteers.) (It is satisfied with the present test that 90% of the activity be carried out by volunteers, however, and does not recommend that it be reduced.) Since there is no monetary test that can be used in measuring the proportion of volunteer, unpaid effort to that of paid staff, the Committee believes that volunteer participation should be measured according to the proportion of total paid and unpaid work or time devoted to the activity.

The Committee therefore recommends:

53. That the volunteer exemption proposed in the Technical Paper be amended and clarified to specify that charities will be exempt from charging GST on supplies where all or substantially all (i.e., 90% or more) of the time worked in day-to-day administration and operation of the activity providing the supply is carried out by unpaid volunteers. Alternatively, Revenue Canada should issue an interpretation bulletin to clarify that this is what the volunteer exemption provided under the GST means.

The volunteer exemption provided for non-profit organizations in the Technical Paper is very restrictive and could inhibit fund-raising efforts by community associations, little league groups and similar bodies without making any substantial contribution to federal revenues. Many of these groups will qualify for the small trader exemption, however, and a fairly strict rule may be justified if its intention is to exclude the large number of non-profit organizations whose primary objectives are not so community-oriented as to justify special treatment.

The Committee accepts that many non-profit organizations are similar to charities in their activities and purposes and in their benefit to the community, however, and therefore should get comparable treatment. One way to identify which non-profit organizations are of benefit to the community is the government funding test used to determine whether they qualify for a rebate on GST paid on their purchases. The Committee has recommended that non-profit organizations which have more than 25% funding from all levels of government qualify under this test. It recommends:

54. That the "volunteer exemption" applied to charities should also be extended to those non-profit organizations which qualify, because of their level of government funding, for a 50% rebate of GST paid on their inputs.

D) Service Clubs

Service Clubs are one particular form of non-profit organization affected by the GST. These clubs exist for the combined purpose of fellowship, community service, and networking for business purposes and are responsible for a substantial amount of volunteer community activity, but do not receive government funding except for special initiatives such as sheltered housing or day care projects.

The Association of Kin Clubs submitted that service clubs such as the Kinsmen should be treated in the same way as registered charities and non-profit organizations substantially funded by government, and hence be eligible for the 50% rebate of GST paid on their

purchases. They were also concerned that the GST would raise price levels and adversely affect the amounts service clubs can raise towards charitable and community projects.

Smaller branches of service clubs will probably qualify for the small trades' exemption, but the fund-raising activities of larger clubs are likely to exceed the \$30,000 limit and may therefore be chargeable for GST.

The Committee believes that service clubs are comparable to a number of other non-profit organizations which do good works but are not funded by government. It is reluctant to recommend treating service clubs like charities when part of their purpose is the social and business benefit of their members.

A charity is limited in its areas of activity or of donation, and must demonstrate that it disburses at least 80% of its income from donations and investments annually. Service clubs are free to seek charitable status, but must then be prepared to accept the restrictions that this would impose on their activities. They may also establish a charitable foundation linked to their club, or organize events in which funds flow directly to a charity rather than through the club. In each of these cases, community-oriented activities organized by a club would benefit from any relevant exemption or rebate from GST.

The Committee is therefore satisfied that means exist in the GST proposals for service clubs to take advantage of the exemptions provided to charities, and that no special provision is required.

E) Membership Fees

The Committee is concerned that the Technical Paper's treatment for GST of membership fees in non-profit organizations and charities is likely to create confusion, although the issue was not raised during testimony. Such fees will be exempt from GST if paid to a charity, but exempt in a non-profit organization only if certain conditions are met, i.e. that they provide no other benefit beyond the right to vote and to attend meetings, and to receive the occasional report or newsletter.

This rule is understandable if a membership acts as a season ticket or also provides a seasonal discount on admissions, as is the case at the Vancouver Aquarium and the Metro Toronto Zoo. It is harder to justify if the benefit given to members is modest and is not the primary reason for acquiring membership. The Committee believes that the GST rule on membership fees should be relaxed, and recommends:

55. That membership fees in non-profit organizations should be exempt from GST where they have a direct cash value that does not exceed \$25 and is less than 50% of the cost of the membership.

F) Below Cost Supplies

The Technical Paper provides that a supply of goods or services by a charity for a nominal consideration, which does not cover the direct costs of making the supply, will be

exempt from GST. the same rule applies to non-profit organizations. However, direct cost is narrowly defined and essentially includes only the cost of materials and such direct costs as rent and electricity used in production. Direct and indirect labour, capital and overhead expenses are not included in direct costs.

It was submitted that this rule was too strict and that some or all of direct labour, financing charges, administrative expense or overhead should be included in the definition of direct cost. In effect, any selling price up to a break-even price on a supply from a charity would qualify for exemption from GST.

Since selling goods or services at below the cost of acquiring them is not a viable means of fund-raising, this provision has a fairly narrow application. It will most likely apply to the production of goods for sale by sheltered workshops. Other types of below-cost supply by charities or non-profit organizations are likely to be exempt from GST because they are made for the relief of poverty, suffering or distress, for example in a soup kitchen or a hostel charging nominal amounts for accommodation.

Many charities and non-profit organizations receive donations and grants to assist in their activities in addition to receipts from commercial supply. Since they are by definition non-profit, a cost of sales that included direct labour, capital and overhead costs would in many cases be equivalent to their selling price. Hence the proposed redefinition of direct costs for the nominal consideration exemption could substantially broaden the range of supplies which this sector could sell tax-free. For these reasons, the Committee recommends:

56. That the exemption from GST for supplies at nominal consideration provided by charities and non-profit organizations should remain as proposed in the Technical Paper.

G) Self-Supply

The issue of self-supply was raised on a number of occasions, notably by a group of food service, cleaning and temporary help companies called the Private Sector Supply to Government group. This group told the Committee that,

“...a number of the proposals (for the public and voluntary sectors) will create serious biases towards self-supply and a corresponding lessening of private sector activity. These biases will endanger the economic efficiencies and jobs that have been created to date, and in many areas will encourage the public sector to develop internal sources of supply for goods and services in preference to external supplies, putting upward pressure on public sector employment levels and budgets.”

Some bias to self-supply is inevitable in any system of value-added tax, both for final consumers and for organizations that are tax-exempt and do not get input credits. Most goods do not lend themselves to being self-supplied, but it is much easier to shift services such as catering, cleaning and maintenance to in-house supply if there is a tax incentive.

The measure of this incentive is the difference between the rate of tax paid on purchased services and the rate of GST paid on self-supply, i.e. the cost of GST on the inputs needed for in-house production. The higher an organization's net rate of GST, the more there is an incentive to self-supply.

This issue is discussed elsewhere in this report with relation to banks and other financial services which have exempt status under the GST. The incentive to banks to move labour-intensive contracted services such as cleaning or food services in-house is relatively high, since purchased services will carry a 7% or 9% tax which is not borne on work carried out by employees. Non-profit organizations which do not qualify for a rebate on the GST paid on purchased inputs will have the same degree of incentive to self-supply as the banks.

At the other end of the scale, hospitals will have a net rate of GST, after rebate, of about 2% under the government's proposals. Since they will also pay some tax on services performed internally, the incentive to self-supply is around 1% GST, which is unlikely to have a great impact on make-or-buy decisions.

The GST paid on contracted services by charities and qualifying non-profit organizations will be 3.5% or 4.5% depending on the final rate of GST. The perception of the advantages of self-supply could be higher, of course, if purchasing managers base their decisions on the 7% or 9% tax charged on invoices without regard to the entitlement to a 50% rebate.

The Private Sector Supply group proposed that this bias be eliminated either by zero-rating sales to these organizations (and to other public sector organizations) or by reducing the tax base for GST on sales to this action to a level well below the actual selling price. According to the Private Sector Supply group, the tax base in these cases should be reduced by the value of the private sector supplier's "non-taxable inputs", such as groceries and self-supplied labour. The group estimated that these account for over 80% of the inputs of its members.

In terms of turnover, non-profit nursing homes are the largest group of non-profit organizations whose purchasing decisions could be influenced by the GST. Special provisions are made in the Technical Paper to give these nursing homes a 50% rebate of GST paid on inputs, even if they do not meet the government funding test. Private nursing homes will be exempt institutions but will be required to pay the full rate of GST on their inputs, and hence have a greater incentive to self-supply.

The Finance Department gave a very brief response to the Committee's question about possible distortions in make-or-buy decisions arising out of the GST: "The rebates will so significantly reduce any incentive to self-supply that no significant biases should arise."

Earlier in this report the Committee expressed its objections to zero-rating sales to public sector institutions, because of compliance problems and the very substantial administrative costs such a system would create for suppliers selling to the public sector. The creation of a reduced tax base for GST on sales to public sector institutions would created

similar problems. Catering and cleaning companies that do a major business with this sector would obviously benefit, but administrative and accounting costs for other supplies would rise and GST revenues from voluntary organizations could drop substantially.

The Committee recognizes that some bias to self-supply in the voluntary sector will be created by the GST proposals, but notes that this will be reduced if the Committee's recommendation is accepted to reduce the rate of GST to 7%. It estimates that the bias to self-supply among charities and qualifying non-profit organizations caused by the imposition of GST will be of the order of 2% to 3% of total cost after the GST will be of the operations has been counted in. Tax is not the only factor in make-or-buy decisions, however. Managers must consider the entry costs of moving production that is now contracted back in-house, then compare the total costs of in-house supply to the total costs of contracted supply.

The committee accepts that there is some incentive to self-supply in the Technical Paper proposals, but not enough to substantially influence make-or-buy decisions in the same area of charities and qualifying non-profit organizations.

Some action would be useful, however, to ensure that decisions on whether to buy contracted services are not distorted by false perceptions of how the GST works — i.e. that self-supply is 7% or 9% cheaper than buying outside services — and that suppliers to public sector institutions have an accurate understanding of how the GST affects their business. The committee therefore recommends:

57. That the federal government should develop information packages with private sector suppliers and with associations in the charitable and non-profit sectors to help ensure that make-or-buy decisions in public-sector organizations are not distorted by lack of knowledge about the GST and rebate systems.

H) Recreation and Sports

(i) *GST and Recreation*

A contentious issue in testimony relating to voluntary organizations and the MUSH sector was the Technical Paper proposal that GST be charged on recreation services provided to adults. This tax will also apply to "athletics, sports, outdoor recreation, music, dance, arts and crafts or similar activities", or classes, provided to teenagers by charities or by non-profit organizations, since children are defined as being 14 years of age or less. This is likely to lead to a substantial additional expense for families.

The Committee notes that arts, recreation or sports activities that are provided privately to children of any age will be liable for GST. Such activities as hockey schools, ski instruction, dancing lessons, private art classes and guitar will all be taxable, as will privately-operated summer camps, although some of these activities may be exempt because of the small traders' exemption.

Most activities of this nature for children and teenagers are provided through public sector organizations like schools, community centres, YMCAs, and boys and girls clubs,

however, and the Committee finds it hard to understand why these organizations will be required to charge GST on programs for teenagers which are generally considered to be socially worthwhile. Legally, children do not become adults anywhere in Canada until the age of 18; in a number of provinces, the drinking age is 19. Under the Income Tax Act, parents may claim deductions for child care expenses for their children up to the age of 13. This appears to be the basis for the limited exemption for children's recreation in the Technical Paper.

GST will not be applied to adult recreation programs "established primarily for mentally or physically disabled or disadvantaged individuals". It was submitted that this implies a means test to determine whether or not people taking a course will or will not have to pay GST. It was also submitted, particularly by the YMCA, that the nature of voluntary sector services is not comparable to commercial outlets, that the YMCA exists as a charity to serve a broad range of the community, not just the poor, and that a part of the function of the Y was to bring together people from different backgrounds and income levels.

Particular problems will arise in determining how to apply GST in cases where exempt and taxable services are mixed together, it was submitted, for example recreation services offered to children and to adults.

The Committee considered a number of solution to these problems and found none of them satisfactory. The alternatives include exempting all recreation courses offered by charities and non-profit organizations from GST, regardless who took part; apply the exemption only if adult recreation courses are provided by charities or by qualifying non-profit organizations, but not by a non-profit group such as a local golf or tennis club; exempt all recreation courses provided by a charity or non-profit organization, or municipality, if at least 80% of the courses being provided would otherwise be exempt.

The problem in every case is whether to grant the exemption when similar programs of adult recreation are also provided commercially and will be subject to GST. If all recreation were to be exempted, the federal government would lose an important and growing source of revenue as leisure markets continue to expand.

The Committee has already proposed a streamlined system of accounting to assist charities and non-profit organizations in administering taxable supplies under the GST. It believes that the main flaw in the Technical Paper's proposals for recreation is the plan to treat teen-agers as adults for GST purposes when they are normally considered in law to be children until the age of 18 or 19. The Committee therefore recommends:

58. That recreation programs provided by public sector bodies should be exempt from GST for teenagers as well as for children, and for this purpose the qualifying age should be 18 and under, rather than under 14 as proposed in the Technical Paper.

(ii) GST and Sports

Many of the issues already discussed with reference to charities and non-profit organizations also affect the sports community directly. The Sports Federation of Canada

expressed its concern that the GST will raise costs, reduce participation, cut back commercial sponsorships of sport, and work against government efforts to make sport less reliant on government funding.

A key issue, already referred to, is the apparent policy contradiction between encouraging increased self-reliance, and denying a GST rebate to sport organizations which have reduced their reliance on government funding to below 50%. This problem does not arise for registered funding to below 50%. This problem does not arise for registered amateur athletic associations, because they will be treated as charities and qualify for a 50% rebate of GST paid on purchases regardless of their level of government funding. Nor should it arise for the corresponding provincial sports federations under the Committee's recommendation that they, too, be treated as charities for the purpose of the rebate. Other sports organizations below the national level may be caught in this trap, however, depending on how they are registered or organized.

The Committee agrees with the concern of the Sports Federation and has therefore recommended that for non-profit organizations, the qualifying level to receive the 50% rebate be reduced to 25% of government funding, and that there be a notch provision to allow a reduced level or rebate to organizations that just fail to qualify for the full amount.

The increased costs of recreation and of sports programs for teenagers and for adults, arising out of GST, have been discussed above. This effect will be even more substantial in the case of an athlete competing at a national or international level, with costs of coaching, equipment, travel, etc. that can easily exceed \$20,000 per year. Many coaches earn their living on a contract basis, and will therefore have to increase their fees to include GST. Some may qualify for the small trader's exemption, but this is not likely for coaches at the national level. Teams that travel will face increased expenses due to the GST, as will teams and athletes that need costly equipment and facilities such as arenas and ice time.

The Sports Federation submitted that corporate sponsorships of sport will be adversely affected by the GST and that the tax could affect supply agreements for equipment with corporations. According to its brief,

"The application of GST to sponsorship agreements would jeopardize hundreds of millions of dollars annually not only to the amateur sports sector but to the cultural, education, health, and social sectors as well."

It was also suggested that future events like the Calgary Olympics could be jeopardized if GST is to be charged on all the facilities and activities involved. (Ticket sales and TV contracts for such an event would be taxed under the GST, however GST input credits for such an event would likely be greater than the additional costs of the tax on facilities and rentals.)

The Sports Federation in its brief submitted that supplies of goods and services by a non-profit organization should be exempt. The Royal Canadian Golf Association made the same case in its brief, arguing that multi-million dollar events like the Canadian Open at

Glen Abbey golf course in Oakville should not have to charge on admissions because the purpose of the event it to raise funds to support amateur programs.

Sponsorships have become increasingly common as a means for businesses to provide support for sporting activities and for the arts. Sponsorships also often provide a direct marketing benefit for the sponsoring company in terms of commercial exposure, brand-name recognition or promotion of a particular product, and hence would appear to be a taxable supply.

The Sports Federation asked that sponsorships not be liable for GST, fearing that contributions from this source will decline after 1991 because of the perception that a sponsorship costs 7% or 9% more as a result of the GST. This perception is not accurate, however, because it will cost a company exactly the same amount to enter into a sponsorship agreement for a particular sports or cultural event as to make a donation. Here is an illustration:

The Canadian Yachting Association asks an accounting firm to make a \$100,000 contribution to its forthcoming “Great Sail Tacks” race off the Grand Banks of Newfoundland, either in the form of a donation or a sponsorship. The senior partners meet to consider the alternatives:

	Donation	Sponsorship
Net value of contribution	\$100,000	\$100,000
GST liability	<u>\$7,000</u>	<u> </u>
Total amount payable to Yachting Association	\$107,000	\$100,000
Less: value of GST input tax credit	<u>\$7,000</u>	<u> </u>
Net cost of contribution to Yachting Association	\$100,000	\$100,000

Whichever route is taken, the example shows that the net cost of the contribution is the same. There is little difference in terms of cash flow either, because the GST input credit on the sponsorship fee can be claimed immediately against taxes collectible for the period immediately the fee has been invoiced or paid. Moreover, GST generally will apply to the cost of advertising and all other forms of marketing and promotion will attract GST, and will generate input tax credits, on the same basis. The Committee believes the business community will overcome the perception problem referred to above relatively quickly as it becomes accustomed to working with a multi-stage tax system.

A number of the Committee’s recommendations respond to concerns raised by the sports sector, notably the broadening of eligibility for the 50% rebate paid by non-profit organizations and the extension of exempt treatment to sports and cultural programs offered to teenagers by public sector organizations. The Committee proposals for streamlined

accounting for non-profit organizations who receive revenue from making taxable supplies will also assist the sports sector.

For reasons already discussed the Committee is not prepared to recommend a GST exemption for all recreation programs offered to adults. It is also reluctant to exempt major sporting events like the World's Cup ski race, or the Canadian Open, from GST on admissions on the grounds that the proceeds go to amateur sport. These events are a commercial type of spectacle, a form of entertainment competing with professional sports and with other diversions such as films and theatre, and the Committee believes that on policy grounds admissions to these events should be taxable.

The question of when GST would be payable on admissions to an amateur event in which some professionals are involved was raised by both arts and sports organizations. The issue is not discussed in detail in the Technical Paper, but the Draft Legislation is fairly explicit. It provides exemption from GST for admission to a performance or sporting event,

“where all or substantially all of the performers or athletes taking part in the performance or event do not receive, directly or indirectly, remuneration for doing so other than a reasonable amount as prizes, gifts or compensation for travel or other expenses... and the performance or event is not advertised or represented to be a performance or event featuring any of the paid participants.”

Hence a track and field meet advertising a professional athlete who was paid to appear would be required to charge GST on the admission, but an amateur theatre company which used one or two professional actors in a performance without featuring them in its advertising would be exempt. Some areas for confusion remain. According to the Department of Finance, if a professional skater (for example) agreed to appear at an exhibition performance by a local non-profit skating club but on an unpaid basis, admissions to the performance would be exempt. A track meet which paid substantial appearance fees might not be required to collect GST on its tickets because the elite athletes for whom it was paying are classed as amateurs.

While there is a need for some clarification, the Committee does not see the need for any basic change in the treatment of admissions or in the treatment of amateur events.

In general, the Committee agrees that amateur sport merits public support, but would contend that this is sufficiently reflected in the 50% rebate on GST paid on inputs as proposed in the Technical Paper. In this regard, amateur sport is currently liable for federal sales tax on equipment, communications and travel with no special federal sales tax treatment.

Concern is natural that a new sales tax may increase the cost of recreation, of participation, and of competitive amateur sport. It may be easier to provide relief to this sector through other government programs, however, than to trying to incorporate additional exemptions into the GST.

In a society where many people have leisure, the demand for adult sport and recreation activities is likely to increase. In other words this have become a major area of

consumer expenditure. While sport and recreation can contribute to well-being and health so can books, travel, entertainment, hobbies, and many other activities which are taxed. The question therefore is to what point should this particular merit good, the area of sports, receive special treatment under the GST.

The Committee recommends:

59. That the federal government should cooperate closely with sports federations and other sports organizations to resolve administrative and compliance problems created by the introduction of the GST.
60. That federal support for national sports organizations should be increased in the early 1990s if it appears this is needed to maintain the standard of Canada's national sport program under the GST.
61. That revenue Canada should clarify through an interpretation bulletin the status of sponsorships by business of sports and cultural activity. The charging of GST on sponsorships should be optional unless they provide the sponsor with a substantial and direct commercial benefit.

(iii) Umbrella Groups

The Edmonton Federation of Community Leagues is a unique organization bringing together some 136 community leagues, and 280,000 members, which are responsible for recreation programs in different parts of the city. The Regroupement Loisir Quebec is a service organization (somewhat like Sport Canada) serving some 115 member organizations in the areas of sports, arts and recreation. Both of these groups appeared before the committee and submitted that volunteer-run recreation groups should not have to collect, or to pay, the GST.

They also urged that services which an umbrella group like the Regroupement provided to its members should be exempt from GST. This point was also made in a brief from the Canadian Sport and Fitness Administration Centre, which provided common administrative in Ottawa. Similar services exist for sports federations in several provinces.

The Committee has recommended a certain flexibility with respect to intra-group transactions in the financial sector, and among co-operatives and credit unions. It recommends:

62. That where services are provided to a group of charities or non-profit organizations by a related organization, or an umbrella organization that is set up for that purpose and certified by the Minister of National Revenue, these supplies should be exempt from GST.

I) The Arts

Arts organizations took a very gloomy view of the government's GST proposal and were almost unanimous in urging zero-rating of inputs, an exemption on ticket sales, or both. During the hearings it was learned that the Department of Finance has indicated that the

Technical Paper proposals are intended to close to 100% input tax credits on the GST paid on purchases by most arts organizations.

Most arts activities have traditionally been exempt from the manufacturer's sales tax, which does not apply to admissions, to performers' contracts, or to most other business dealings in the arts sector. Under the GST, arts organizations are anticipating the impact of sales tax for the first time both on ticket sales and on the cost of purchased inputs. The current system does affect some arts organizations more substantially, however, notably theatre and opera companies which pay heavily for sets, costumes and lighting.

The reaction of arts organizations, in submissions to the committee, was very strong. Some examples:

"The GST is a tax on creativity, on works of the intellect. It denies the importance of the role of the arts and the cultural industries to Canadian society. It is on these grounds that our sector has tremendous resistance, if it is not opposed outright, to the introduction of the GST."

(Canadian Conference of the Arts)

"The proposed GST will have a profound negative impact on the whole very price-sensitive cultural sector, but especially the visual arts one."

(Canadian Artists' Representation)

"(The) effects (of the GST) on performing arts organizations are of great concern to us. All of the organizations (surveyed by the Council) would have to raise ticket prices between 9% and 12% in addition to a normal inflation adjustment to restore their financial position to its present level... It seems likely that prices of these items will have to rise more than those of certain other goods and services, and may therefore encounter consumer resistance."

(Canada Council)

"The GST proposed in the Technical Paper will give rise to a price increase at the box office exceeding the GST rate with the result consumer demand is expected to decline by a factor greater than 9%."

(Entertainment Tax Action Committee)

"This proposed tax is particularly onerous in view of the fact that in many jurisdictions across the country, theatres are forced to pay an amusement tax that runs as high as twenty per cent. This cascading of taxes threatens the economic viability of many of our smaller members with the resulting negative impact on the entertainment options in communities across the country."

(Motion Picture Theatre Associations of Canada)

"While there are many movie houses, symphony orchestras are usually the solo providers in (their)market. They will incur increased operation deficits, thus increasing their cumulative deficits. One can expect, over the first few years of

implementation, the demise of organizations with a high percentage of fixed costs (symphony orchestras) and organizations with existing major deficits.”

(Association of Canadian Orchestras)

“... the imposition of the GST on everything from gift shop sales, facility rentals, art rental and community membership fees will seriously erode our self-generated revenue base, place our volunteers in the position of raising funds to pay tax, and ultimately make the art museum community increasingly dependent on government grants.”

(Canadian Art Museums Director Organization)

“It would seem counterproductive on the one hand for the government to support financially the production of television and film through Telefilm, the NFB and the licence fees of the CBC and on the other hand to recoup a portion of that financial assistance through the GST. There is a legitimate public policy objective served by the financial encouragement of production both by independents and through public agencies such as the CBC. The GST should not have the impact of threatening that objective.”

(Association of Canadian Cinema, Television and Radio Artists)

“We disagree with the Department of Finance assumption that consumer spending will be unaffected because all prices will rise equally. We believe that the consumer’s cultural dollars will remain constant, and the volume of product purchased will decrease by 9%.”

(Professional Association of Canadian Theatres)

“We feel it is important for cultural workers that the level from which the small trader’s exemption applies be raised from \$30,000 to \$50,000. This would not cost the government significant revenues but it would avoid, in a fair and equitable manner, double taxing these workers and would simplify the management of their affairs.”

(Conseil québécois du théâtre)

“The professional theatre, opera and ballet . . . are already drastically underfunded. The imposition of a 9% tax on the services of our members will seriously inhibit their limited bargaining power. This tax, in other words, will come right out of the artists’ pockets.”

(Canadian Actors’ Equity Association)

(i) General treatment

Arts organizations generally have charitable status or are non-profit organizations, but there are also a number of private, professional arts organizations which will be treated like any other businesses under the GST. These groups did not appear before the Committee.

The arts sector receives a substantial amount of public support through the Canada Council and other channels, through equivalent bodies at the provincial level, and through grants, donations and sponsorships. Hence ticket and admission revenues may be as low as 10% of total budget in the case of museums and galleries, rising to around 40% to 60% in the case of theatre and opera companies.

Artists tend to be self-employed and to have low incomes. Many have regular jobs to support themselves and their families and carry out their art on a part-time basis. Actors' Equity gave the committee an example of the incomes of its membership. Work was "sporadic" and the number of weeks worked by its members averaged 27 in 1988. Actors could have as many as 8 "engagers" or employers in a year, and the average income of Equity's 12,700 members was \$10,000.

The arts are not treated separately in the Technical Paper but are grouped together with other charities and non-profit organizations. Many of the issues raised by witnesses from the arts sector were similar, in fact, to concerns expressed from other groups in the voluntary sector.

Arts organizations which are charities will be entitled to a 50% rebate of the GST paid on their inputs, as will those which are non-profit organizations and meet the government funding test. However, the government has agreed to two major clarifications which benefit the performing arts organizations:

- * grants and donations will not be taxed under the GST and will not be considered in allocating input tax credits.
- * arts organizations will be allowed a 100% tax credit on all inputs that can be reasonably attributed to commercial activities such as admissions.

The effect of this is that even if an arts organization less than half of its revenues from box office, all or virtually all of the GST paid on its inputs will qualify for a 100% input tax credit. The effect of this provision is goods and services purchased by arts organizations will actually cost somewhat less than at present after allowing for input tax credits, assuming that suppliers remove the present federal sales tax burden before calculating GST.

Here is an example of how the treatment of inputs will work, using figures from the Canada Council’s study of the Winnipeg Symphony Orchestra:

Winnipeg Symphony Orchestra
1987–88 season

	<u>Present federal sales tax</u>	<u>Goods and Services</u>
Tax		
Total expenditure (including \$28,653 federal sales tax)	\$3,488,067	
Total expenditure (no sales tax included)		\$3,459,414
Goods and Services Tax (at 7% rate)		\$79,353
Total expenditure including sales tax	\$3,488,067	\$3,538,766
Less: GST input tax credit		\$79,353
Net total expenditure	<u>\$3,488,067</u>	<u>\$3,459,414</u>

The effect of the government’s interpretation of the rules, in this case, is to lower the cost of the Winnipeg Symphony’s inputs by \$28,653, the value of federal sales tax paid under the current system. (This estimate assumes that the federal tax will be fully removed before suppliers start to calculate GST.) Since no upper limit has been defined for the full refund of input tax credits, it is extremely unlikely that there will be an increase in the costs of arts organizations due to the tax, as any amount of GST charged on purchases would be eligible for refund as an input tax credit immediately.

The problem for the arts organizations is the requirement that their ticket sales, or entrance fees, be treated as commercial supply and therefore be liable for GST. The issue is the same as was discussed with respect to the GST and sports: should the imposition of GST be based on the nature of a service or of an event, or on the intent with which it is offered? The Technical Paper proposes to tax commercial supply regardless of the motive of the supply, or by whom it is offered. Organizations in the arts disagree with this approach: an example of this view is expressed in this submission from the Canadian Conference for the Arts:

“For arts organizations that are registered charities or non-profit organizations, the so-called commercial activity in which they engage is not profit driven: the surpluses, if any, are returned to the organization to further its aims and objectives. Thus revenue-generating activities undertaken by arts charities and non-profit organizations to meet their objectives (in recognition of which the government has granted charitable or non-profit status) should not be subject to the application of the GST (both for inputs and outputs).”

Here is how the tax on admissions would affect the Winnipeg Symphony. This example assumes that sponsorships will be taxed for GST but that ticket prices are left unchanged, and that GST is charged at the 7% rate recommended by the Committee.

**Winnipeg Symphony Orchestra
1987-88 season**

	<u>Present federal sales tax</u>	<u>Goods and Services Tax</u>
<u>Tax</u>		
Net total expenditure (as above)	\$3,488,067	\$3,459,414
Revenue:		
Tickets	\$1,485,000	\$1,485,000
Sponsorships	\$176,000	\$192,000
Grants & donations	\$2,004,000	\$2,004,000
Total revenue	\$3,665,000	\$3,681,000
Federal sales tax on revenue & sponsorships (7% GST)	—	\$113,000
Revenue after tax	\$3,665,000	\$3,568,000
Less net total expenditure	<u>\$3,488,067</u>	<u>\$3,459,414</u>
Operating surplus	\$177,000	\$108,600

As the example shows, the symphony's surplus will decline by about \$70,000 if GST is 7% and there is no increase in ticket prices. This is equivalent to a 5% increase in ticket prices, but this increase will take place at a time when the cost of tickets for films and other attractions, previously exempt from federal sales tax, will also be increasing by comparable amounts.

The most substantial submission the Committee received on the arts was from the Canada Council, which based its testimony on a lengthy study of the economic impact of the GST by Woods, Gordon. The Council submitted that arts organizations will have to raise ticket prices 9% to 12% in order to maintain their financial position, because of the GST, and that admissions to cultural events may fall because the price of tickets will have to rise more than those of other goods and services.

The Council estimated that performing arts organizations will pay "not less than 5% of their annual budget on GST", even if they get a 100% tax credit on GST paid on inputs, which had done the most to reduce their reliance on government.

The Committee has examined the Council's figures closely and believes that they may create a misleading impression. In the case of the Winnipeg Symphony, for example, the Committee estimates the symphony would have to raise ticket prices by 5% if the general rate of GST is 7% (or 6% if the GST rate is set at 9%) in order to maintain its financial position.

This is considerably less than the Council's estimate that a 9% increase in ticket prices would be required.

The Committee's figures for Les Grands Ballets Canadiens differ from the estimates prepared by the Canada Council. The Council's study shows that GST of \$274,000 would be payable on taxable revenues for Les Grands Ballets, which, exclusive of fundraising and grants, would amount to a maximum of \$2,334,000. This indicates a GST rate of almost 12% and appears to be in error. The Council acknowledges that corporate sponsors might increase sponsorships by an amount equal to the GST they will bear, since the GST will be returned very quickly as an input tax credit, but has made no allowance for this in its estimates. The Committee's estimate for Les Grands Ballets is as follows:

Les Grands Ballets Canadiens

1987-88 season

	<u>Under Federal Sales Tax</u>	<u>Under Goods & Services Tax</u>
Total expenditures (including \$153,000 federal sales tax)	\$5,273,000	
Total expenditure (No sales tax included)		\$5,120,000
Plus GST at 7%		\$358,000
Less GST input tax credit		(\$358,000)
Net total expenditure	\$5,273,000	\$5,120,000
Revenues:		
Ticket sales		\$1,311,000
Other taxable supply		\$30,000
Total taxable revenue		\$1,341,000
Exempt revenue (grants, fund-raising, donations)		\$3,941,000
Total revenue:	\$5,282,000	\$5,282,000
Less: Net total expenditure	<u>\$5,273,000</u>	<u>\$5,120,000</u>
Surplus for the year	\$9,000	\$67,000

This exercise indicates that Les Grands Ballets should in fact benefit from the new tax, because it GST input credits will result in the elimination of a substantial cost of federal sales tax being paid under the current system. According to the Committee's estimates, the increase in Les Grands Ballets' surplus would be enough to reduce ticket prices by 5% (or by

2.5% at a 9% rate of GST), rather than increase ticket prices by 9% as forecast by the Canada Council, if the company wanted to maintain its old financial position.

The Committee acknowledges the concerns raised by the arts community and accepts that certain arts organizations will be required to raise ticket costs or increase other sources of revenues in order to meet their new obligations under the GST. As stated earlier, however, the Committee agrees with the contention that the cost of admissions to arts events should be taxed. This is consistent with the base broadening involved in the GST and with the fact that arts performances or events are a commercial type of activity, even if they are subsidized.

The Committee's review suggests that the impact of the GST on the arts community will be less than many of the organizations which appeared as witnesses feared. Nonetheless it is difficult to forecast the precise impact of the GST on the arts community, particularly if the new tax has an unusually heavy effect on the rate of inflation. This possibility would be reduced with a 7% rate. Some increase in funding through the Canada Council and other granting agencies could be needed to assist arts organizations in the transition to the new tax. The Committee therefore recommends:

- 63. That the federal government make special grants to the Canada Council and other agencies supporting the arts beginning in 1991, to the extent that this may be needed to offset any serious problems created for arts organizations through the introduction of the GST.**

(ii) Administering GST in the Arts

A number of the Committee's proposals for charities and non-profit sector respond to concerns raised by arts organizations. The Committee's proposal to make it easier for non-profit organizations to qualify for a 50% rebate of GST paid on inputs would benefit those arts groups which do not qualify for input credits like the performing arts groups, as will its proposals for a notch provision and for a streamlined accounting system for charities and non-profit organizations providing some commercial supply.

A number of arts groups asked that the small traders' exemption be raised from the \$30,000 level proposed in the Technical Paper to \$50,000 in order to allow the vast majority of artists and performers to work on an exempt basis. Elsewhere in this report the Committee sets out its reasons for supporting the figure chosen in the Technical Paper. It notes, however, that the small trader exemption would cover most artists and actors in Canada, and that the figure has been raised from the \$5,000 level originally proposed by the government in 1967. The Committee's proposal to guarantee the exemption for each year on the basis of a trader's taxable supply in the previous year also responds to the desire of artists for more certainty.

The submissions by ACTRA, by the American Federation of Musicians and by other witnesses with respect to the administration of GST in contractual arrangements with performers and artists deserve careful consideration. They contended that it would be difficult for organizations like film production companies or the CBC to account for the services of

artists when some are registered in the GST system and some are exempt, particularly since payment for contract services is often made without an invoice being submitted.

If the Committee's recommendation for determining small trader status a year in advance is accepted, the administrative problems for producers of maintaining a record of an artist's GST status will be relatively easy to resolve, in the same way that records must now be kept of the address and social insurance number of artists on contract.

ACTRA went further, however, in proposing that producers pay GST on all contract fees to performers whether or not the performer is classified as a small trader, and therefore take over the performer's responsibility to remit GST. Since the producer would be entitled to an immediate input tax credit, there would be no material effect on its cash flow. The GST attributed to performers would be accounted directly to National Revenue rather than being paid to the artist; if an artist was a registrant, he or she could claim input tax credits on goods and services purchased in order to earn the revenue.

The effect of this proposal would be to substantially reduce paperwork by accounting for GST in the same way that income tax is deducted from employees at source and reported on T-4 slips. A performer registered in the system will only be required to file a GST return and remit GST that payable once a year. Under ACTRA's proposal, GST attributed to performers' contracts would be remitted on an ongoing basis. This suggestion would therefore improve compliance, simplify administration in the cultural sector, and improve the government's cash flow from GST.

The Committee recommends:

- 64. That to simplify the administration of GST in relation to contracts with artists and performers, the government permit producers and arts organizations to deduct GST that is payable on these contracts at source in a manner similar to the deduction at source of income tax.**

A number of arts organizations raised concerns re the need to charge GST on sponsorships, which are becoming an increasingly common vehicle for corporate support of the arts. Whether a company donates to the arts by means of a grant or a sponsorship, however, the impact on its accounts is the same, as the Committee notes in its comments on the GST and sports.

The Committee believes that charging GST on sponsorships in the arts may create a temporary problem of perception, but should not be a financial disadvantage for arts organizations. As noted earlier, it believes that the status of sponsorships should be clarified by Revenue Canada and that GST should be required to be charged on sponsorships only where they provide the sponsor with a substantial and direct commercial benefit.

Some confusion was expressed to the Committee with respect to the exemption from charging GST that is proposed for foreign performers temporarily working in Canada. ACTRA contended, for example, that non-Canadian performers and writers working on

Canadian productions could enjoy a competitive advantage over resident Canadians, and that the GST could inhibit non-Canadian companies from producing in Canada.

The reason for the exemption for foreign performers is that the tax would be hard to collect and difficult for performers unfamiliar with Canadian taxation to understand. No loss of revenue to the Treasury is involved, since no input tax credit will be provided to the employer who contracted with the performer to come to Canada.

A related area is the impact of GST on Canadian film production and the film industry in general. The Motion Picture Theatre Associations of Canada contended that the GST would “devastate the box office potential” of Canadian films and urged that the entire film production industry be exempt with the exception of GST charged on box office receipts. This would make the GST into a retail sales tax on films and is a form of zero rating on a domestic industry which the Committee in general rejects.

Most film-making in Canada is for export. While all aspects of film-making are exempt from federal sales tax, the industry still bears a significant amount of indirect, hidden federal sales tax in its cost structure just like many export industries. This tax will be reimbursed to film-makers through the input tax credit system under the GST, and refunds are to be paid during the course of a film’s production even if it is months from completion or if the producer has not yet found a buyer. Revenue Canada will honour refund demands from film-makers, in other words, so long as the production is commercial and has a reasonable expectation of profit.

What this means is that, contrary to the contention of some witnesses, the costs of film-making for domestic as well as for export markets will tend to decrease if the GST is substituted for the current federal sales tax. Any increase in tax will, in the end, be passed on to consumers and be paid at the box office.

Witnesses also contended that production of films for Canadian markets would be reduced because of a fear that domestic sales would reduce GST input credits available for exports. This is not the Committee’s understanding. Input tax credits are to be refunded on a regular basis as a film is produced. If distribution rights are then sold for export, the sale will be zero-rated. To the extent that distribution rights are sold for Canadian use, GST will be charged to the distributor and eventually passed through to consumers when they pay at the box office. The same treatment would apply to a foreign distributor, or to rights to a foreign film, and the GST should therefore be neutral as between its treatment of Canadian and non-Canadian films.

The Canadian Association of Broadcasters was one of the few witnesses from the area of arts and communications not to request exemption from GST — even though it offered the Committee some pessimistic forecasts about how the tax will affect small radio and television stations. The Committee notes the broadcasters’ concern that a level playing field be maintained in local media markets, so that GST is applied to newspapers and other local print outlets on the same basis as to broadcasting. As noted elsewhere, the Committee has rejected proposals that newspapers and other publications should be exempt from charging GST.

This chapter deals with the impact of GST on governments and on the institutions making up what is called the MUSH sector, namely Municipal governments and related agencies; Universities and public colleges; Schools and school authorities, whether tax-funded or privately-funded, non-profit institutions; and public Hospitals.

The public sector as defined in the Draft Legislation includes charities and non-profit organizations, which are dealt with in the previous chapter; the provincial and federal governments; and the MUSH sector.

Under the Canadian constitution, provincial governments are not liable for federal tax on their purchases and the federal government is not liable for provincial sales tax. Eight of the provinces and the federal government have had an agreement, however, under which they pay the other governments' tax rather than seeking exemption or refunds. These Reciprocal Taxation Agreements will expire with the introduction of the GST unless they are renegotiated. The Committee would support renewal of these agreements, particularly because of its desire — discussed in the previous chapter — to avoid the creation of more exempt purchasers, such as the provinces, within the Canadian market.

A) Technical Paper Proposals

The MUSH institutions enjoy substantial exemptions from sales tax under the present federal system. Special treatment is to be continued under the GST under a rebate system designed, according to the Technical Paper, "to ensure that the reform of the federal sales tax imposes no greater burden than before reform."

The general approach to taxation in the public sector is laid out in the Technical Paper. It states that the federal government

"must ensure that the GST is applied in a fair and uniform manner to commercial supplies made by both the private and public sectors. This will ensure competitive equity and minimize tax-based distortions. At the same time... the government recognizes the special role that public bodies play in our society and, therefore, will ensure that the tax system does not impede their non-commercial activities."

The Technical Paper goes on to state:

"To the extent that governments and their emanations engage in commercial activities, they should be subject to the same general rules as private sector organizations... (S)upplies by governments will, in general, be subject to GST if

they are made in the nature of a commercial activity... (I)t is the nature of the supply itself which will generally be the central determinant of tax status, not the nature of the organization that makes the supply.”

The Committee has already indicated its support for this approach. It recognizes, however, that the structure of GST and the decision to tax commercial supply by the public sector will create significant problems in administration and compliance.

The Federation of Canadian Municipalities, Association of Universities and Colleges of Canada, and Canadian Hospital Association all submitted substantial briefs to the Committee and provided assistance to the research staff. The Committee also received assistance from the Canadian School Trustees Association although it did not submit a brief.

The biggest concern of institutions in the MUSH sector is how the proposed rebate system will affect its members. Only the barest details of the system are provided in the Technical Paper, and the the sections referring to rebates for the MUSH sector were not released with the rest of the Draft Legislation in October.

The Committee is therefore handicapped in evaluating the MUSH rebate system for lack of information, and it fears that Parliament will likewise be handicapped when the GST is brought forward for legislation.

B) Rebate or Exemption?

In its submission the Federation of Canadian Municipalities rejected the rebate system because, it said, the government had failed to consult and to resolve the concerns it had raised about this proposal with the Department of Finance in the spring. Instead the FCM proposed an exemption/certificate system under which sales to municipalities would bear tax at a special low rate rather than the regular rate of GST.

There are strong reasons for recommending a rebate system over a system of exemptions, however, relating to administration and to compliance. These reasons were acknowledged by the FCM in a May 31 submission to the Department of Finance.

The Committee discussed the alternatives to a rebate system in the previous chapter and has concluded that a rebate system for the MUSH sector along the lines proposed in the Technical Paper is preferable to relieving this sector from sales tax through a system of exemptions, certificates, or a special low rate of GST.

Setting the Rate of Rebate

The general impression left by witnesses representing MUSH-sector institutions is that the percentage of rebate to be paid is crucial to whether they reluctantly accept the new sales tax, or actively resist it. In initial meetings, the Department appears to be proposing much lower rates of rebate than the levels the MUSH groups feel are justified.

Both the Federation of Canadian Municipalities and the Canadian Hospital Association reported that they had experienced lengthy delays in their efforts to discuss how the rebate system might work, and what rate of rebate might be used, with the Department of Finance. A meeting between the FCM and Finance to discuss the numbers, originally set for July was rescheduled to November; even then the focus was on principles rather than the calculations each side had made.

The FCM stated in its brief that:

"In our discussions, Finance officials agreed that FCM would have an opportunity to review the estimated 1991 FST liability without reform together with estimated GST liabilities, and that such a review would take into account the painstaking research the municipal sector has undertaken. Finance officials have described some of this research as "the best that could be done.'"

"The White Paper states that the federal government will unilaterally make the determination, without consideration of the substantial body of research undertaken by FCM and its members."

With respect to timing, the Finance Department stated in its written response to the Committee's questions that:

"The department is currently beginning the process of consulting with representatives of each sector on the appropriate rebate rates and delivery mechanisms. When the final GST legislation is tabled, it will contain the authority to provide rebates to the various institutions. The precise rebate rates will be prescribed in regulations to follow."

Regulations are often used in financial legislation to allow a government to deal more easily with complex technical issues, and to provide flexibility to make changes in legislation future years without the need to return to Parliament.

There is little complexity involved in this area, however. Only one rate of rebate is being applied in each MUSH sector, and if the initial rate of rebate in each sector has been calculated fairly and accurately there should be no reason for it to change in future years.

Organizations in the MUSH sectors will have great difficulty contributing to debate on the final GST bill if they are still in the dark with respect to the rebates to be provided in each sector when it is introduced. For this reason the Committee believes it is important that the rates of rebate to be provided in the four MUSH sectors be determined at the earliest opportunity. It therefore recommends:

- 65. That the Department of Finance proceed immediately to determine rebate rates for the MUSH sectors in close consultation with the affected institutions and their respective associations.**

The current federal sales tax includes a certificate system that allows MUSH institutions to purchase a wide range of goods free of federal sales tax. Public hospitals have the most comprehensive set of exemptions and as a consequence pay the lowest net rate of federal sales tax of the four MUSH sectors, equivalent to a GST rate of about 1%.

Expressed on a GST base, this net rate of federal sales tax is believed to range up to 2 or 2.5% for other MUSH sectors. But it has proven very complex and difficult to calculate the actual burden of federal sales tax, either for individual institutions or for each sector as a whole, particularly when estimating the value of hidden sales tax that is borne indirectly by MUSH institutions. Yet the government is committed to ensure that the GST burden on these institutions is no greater than before reform, and an estimate of the present sales tax burden must therefore be arrived at if this commitment is to be honoured.

The formula used in the Technical Paper provides that liability for sales tax in 1991 is to be calculated for each of the four MUSH sectors and then expressed as a fraction of the estimated GST liability that would apply in this sector if no special treatment were given. The rebate rate is the reciprocal of this fraction, expressed as a percentage. Each of the four sectors will have its own rate of rebate, which the Technical Paper states will be calculated “using federal estimates of the federal sales tax and GST liabilities of these organizations.”

Hence if the actual federal sales tax liability for a sector in 1991 was estimated to be \$1 billion and the GST liability was estimated at \$4 billion if there was no special treatment, then

$$\text{Rebate (\%)} = \left[1 - \frac{\$1 \text{ billion (FST)}}{\$4 \text{ billion (GST)}} \times 100 \right]$$

or a rebate of 75%.

The associations representing the MUSH sector have tried to arrive at a current estimate of the federal sales tax burden using recent, detailed financial statements of selected members, and adding in an estimate for sales tax paid indirectly. On this basis their calculations point to rebates of around 70% (municipalities); 77% (school boards); 84% (universities and colleges); and 80% to 90% (hospitals).

The Department of Finance believes that estimates from each sector of the present FST burden on MUSH institutions are too low, and is preparing its own estimates of the direct and indirect liability for federal sales tax without reform on the basis of input-output tables dating from 1984 and updated to 1991. As of early November, however, it had only just begun to share its calculations with the respective MUSH sectors.

According to the Department, the equivalent tax base of the MUSH sector in 1991 — if sales tax was levied at regular rates — would be \$7.8 billion and the federal sales tax revenues would be just under \$1,000 million. Arguments over the appropriate percentage of rebate to

be allowed therefore have a substantial value to the sector concerned. The attached table treats the four MUSH sectors as one in order to show why:

GST in Mush Sector to be paid after rebate

	<u>Rebate % of GST</u> (\$ million)			
	75%	77%	80%	85%
Spending liable to GST				
	\$27,000	\$27,000	\$27,000	\$27,000
GST paid at 9%	2,430	2,430	2,430	2,430
Rebate	1,823	1,871	1,944	2,066
Net GST after rebate	<u>607</u>	<u>559</u>	<u>486</u>	<u>364</u>

In this example, each one point difference in the rebate is worth \$24 million in gain or loss to the federal government and to the affected institutions.

The Committee believes that the government commitment to the MUSH institutions involves not increasing their current sales tax burden, but it does not require reducing that burden if the GST rate is set at 7% instead of 9%. In this case, the rate of rebate would be lowered sufficient to result in the same net rate of GST as had been worked out under a 9% rate.

Many witnesses from the MUSH sector addressed the rebate issue, in most cases to recommend that their institutions be further relieved of GST through exemption, zero-rating, or a 100% rebate. As the Canadian Association of University Teachers put it,

“... the tax system and tax changes should have a completely neutral impact on the funding budgeted for public services... the central principle should be that funds originally intended for the provision of these services should not be reduced indirectly by changes in the tax system. To the extent that the existing federal sales tax is already being applied to public sector institutions, this principle of tax neutrality is being violated.”

The Federation of Canadian Municipalities had a very specific interpretation of the minister’s commitment not to impose a greater tax burden than before reform:

“No two municipalities are alike. Since the Minister’s undertaking is to all municipalities, not to some notional “average”, no single municipality should, on a net basis, pay any more tax under GST than it paid under (the federal sales tax).”

To achieve this with one rate would mean rebating all municipalities down to the rate of FST that the most lightly-taxed city or town in Canada would have borne in the base year. But if an average rate of FST is used, as the FCM pointed out, that will mean that half the

municipalities in Canada will pay more GST than they would have under the FST, and half will pay less.

Both of these approaches would result in reducing the federal sales tax revenues from the MUSH sector under GST relative to the FST. The sums involved are not trivial; to remove federal sales tax entirely on the MUSH sector would cost the equivalent of an increase of 1/3 of 1% in the rate of GST. According to the Department of Finance, the government's intention with the MUSH sector was not to remove sales tax entirely from the public sector, but to mirror the existing revenue situation as closely as possible.

The FCM has carried out an extensive study of federal sales tax costs based on the City of Calgary's books for 1987. The sales tax burden was calculated for each major area of municipal activity, then the results were applied to the budgets of a number of other municipalities with different activity patterns and of different sizes. The effective federal sales tax rate in every case, expressed as a net rate of GST against taxable purchases, was remarkably similar:

**Estimates of 1987 Effective
Tax Rates for Surveyed Municipalities**

Municipality	Effective GST Rate
Calgary	1.657%
Castlegar	1.602%
Edmonton	1.702%
Hull	1.622%
Montreal	1.650%
Regina	1.609%
Saint John	1.577%
Truro	1.639%

Source: FCM Submission to Department of Finance, May 31, 1989

The Committee shares the concern of the MUSH organizations at the prospect that the percentage of rebate to be applied, to fulfill the government commitment not to increase sales taxes in this sector, will be determined unilaterally.

All parties agree that calculation of the current burden of FST on MUSH institutions is excruciatingly difficult and subject to error, because so much of the tax involved is indirect rather than direct. With the limited time now available, this means that the Department of Finance and the affected sectors may in the end not have reliable numbers to work from; their only choice will be to sit down and negotiate a rate of rebate which appears to be fair to both sides.

The Committee questions whether the use of econometric tables to calculate the federal sales tax paid by the MUSH sectors is as accurate as working from the books of the institutions themselves. The government's input-output tables are based on 1984 figures projected to 1991 and may not have been originally constructed to make precise estimates of

sales tax. In dealing with the MUSH sector, the Committee urges the Department of Finance to be sufficiently generous in its negotiations that the affected institutions feel they have been given a fair deal.

C) Number of Rates

A number of witnesses submitted that because the circumstances and activities of different MUSH institutions vary widely, they are likely to have wide variations in the rate of federal sales tax now being paid on their inputs. They also suggested there could be substantial differences in the rate of tax paid between larger and smaller institutions, so that more than four rates of rebate would be justified.

The Federation of Municipalities study did not support that contention, and the AUCC also testified that it could not find a substantial variance in the rate of federal tax between different types or different sizes of universities. No satisfactory suggestion was made, moreover, as to how the federal sales tax burden for each institution might be estimated if there were to be a system of multiple rates of rebate.

The Technical Paper defines the municipal sector to include a number of special-purpose bodies such as library boards, police commissions and transit undertakings which act as municipal agencies and which may have different patterns of spending. The B.C. Library Association made a special plea to the Committee that libraries be given a special rate of rebate, arguing that their sales tax expenditure under the current system is very low because books are exempt. A similar point was made by the Canadian School Trustees Association, which suggested to Committee staff that new school buildings should be rebated at a rate of 100% of GST paid because building materials are currently exempt under the Excise Tax Act.

With four MUSH sectors and four rates of rebate, the system of rebates proposed in the Technical Paper is already complex. The rates may also need to be adjusted for specific cases of mixed-use facilities such as a university, hospital or a community centre jointly run by a school board and municipality. Defining more sub-sectors in the MUSH sector and adding new rates of rebate would add to the complexity of the system and should therefore, in the committee's view, be discouraged.

The Committee therefore recommends:

- 66. That, as proposed in the Technical Paper, there should be only one rate of rebate of GST paid on inputs for each of the four major areas in the MUSH sector.**

The Federation of Canadian Municipalities proposed that to implement the government's commitment not to increase the tax burden on MUSH institutions as a result of the GST, the rebates be set at a level that ensured that no municipality would pay more tax.

As discussed above, it would be very difficult to determine which municipality should set the standard or to calculate its effective rate of federal sales tax. The Committee is

concerned, moreover, that the FCM's proposal would result in a substantial revenue loss to the federal government from the MUSH sector.

The committee therefore accepts that the rate of rebate in each of the MUSH sectors should be set at approximately the average rate of federal sales tax paid in that sector, even though this means that some institutions will gain and some lose because their individual rate under the current system was below or above the average. The Committee believes, on the figures which it has seen, that these gains and losses will tend to even out over time.

D) Administrative Problems

A number of witnesses expressed concern about the proposed GST rebate system because of the complexity, costs and administrative problems they feared it would entail. The City of Vancouver estimated it will cost \$750,000 more per year to administer the GST, while the City of Calgary estimated its costs of preparing for the GST will be \$1 million out of a total annual budget that exceeds \$1 billion.

The FCM estimated that administrative costs of GST could rise to 0.5% of taxable purchases, while according to the Federation of Prince Edward Island Municipalities.

"Of the 88 municipalities on PEI 12 have populations under 1,500. Many of these municipalities have no or very little administrative staff; any work is done by community volunteers. The constant process of determining the source of goods, the type of rebate/credit applicable, and claiming of rebates can simply not be handled by small municipalities."

MUSH institutions will have to keep track of two types of inputs, those that are taxed and those that are zero-rated or exempt, and of two types of supply — taxed (at zero percent or at the full GST rate) and exempt. Commercial undertakings such as a university bookstore or municipal cafeteria will have track purchases so that GST input credits can be claimed at a full rate. School boards will have to determine which adult education courses are to be taxed, and at community centres, municipalities will have to charge GST on the fee for recreation courses to teenagers and adults, but remember to exempt those who are disabled or disadvantaged.

The major problem for MUSH institutions appears to lie not in calculating the value of GST on purchased inputs, or reckoning the value of taxable supplies for GST, but in segregating inputs that are used in making taxable supplies in order to qualify for full GST input credits. Given the complexity this entails, it is worth looking for an alternative approach to the GST for the MUSH sector which would preserve federal revenues but be easier to operate.

One such solution is to zero-rate sales to the MUSH sector. This would result in a substantial loss in federal revenue, however, and for reasons given in the previous chapter is not a solution the Committee would support. Similar objections apply to the creation of a low rate of tax for the MUSH sector, because the compliance and administration problems

are similar whether a supplier sells to a MUSH institution at a zero rate or at a special low rate of GST.

One solution which would simplify the administration of MUSH institutions without cutting into sales tax revenue would be to charge MUSH institutions GST in the normal way, but to rebate 100% of GST paid rather than 75% or 80%. Since this would cost the federal treasury close to \$1 billion in revenues, the federal government would adjust its transfer payments to the provinces to offset the loss of GST from the MUSH sector. The provinces in their turn would adjust their payments to MUSH institutions to make up the loss of transfer payments from the federal level.

A system of 100% rebates on GST paid on purchases would greatly simplify accounting for the tax. Input tax credits would not have to be tracked and matched to commercial supply to gain a full refund. MUSH institutions are already familiar with their provincial governments and would negotiate at that level regarding the adjustments in provincial support needed for this plan to work.

The Committee has discussed this proposal with organizations representing the four MUSH sectors and has had a mixed response. The hospital sector, which is funded almost wholly through provincial support under medicare, reacted favourably. The school and municipal sectors were negative, fearing that they stood to lose more from reductions in provincial grants under this proposal than they would save through the raising of the rebate rate to 100%.

This plan would require special arrangements in the province of Quebec because for the past 10 years, municipalities in that province have been autonomous and independent of provincial financial support. Larger school boards in Ontario and British Columbia are also financially autonomous and receive no provincial grants that could be adjusted to compensate for the change in sales tax treatment.

An alternative to this proposal is the streamlined accounting system proposed in Chapter 8 for charities and non-profit organizations. This could be applied equally well to MUSH institutions, particularly when they had only small amounts of commercial supply.

The Calgary Board of Education, for example, had a budget of \$398 million in 1988 of which it estimates only \$1 million was commercial supply. Under a streamlined system, it would calculate its input credits on taxable supply in the following way:

1. Calculate GST payable on commercial supplies such as rentals, parking, catering and taxable adult education courses. At a 9% rate of GST, this would be worth \$90,000.
2. Estimate the GST paid on inputs to provide the supply at a rate set by regulation, say 50% of the GST payable on supplies. This results in an input credit of \$45,000.

3. Calculate the GST paid on all taxable purchases for the board, which amounted to \$48 million. This amounts to \$3,963,300. Take away the amount of the input credit on commercial supplies, which will be applied against GST payable. This leaves a net amount of GST paid, (\$3,963,000 — \$45,000) which is equal to \$3,918,300.
4. Calculate net GST payable by deducting the input credit of \$45,000 from the total payable of \$90,000. This is equal to \$45,000.
5. Calculate the board's rebate at the rate of 75% set in the GST legislation for school authorities on the net amount of GST paid: (75% x \$3,918,300), or a total of \$2,938,725).
6. The Calgary Board would then submit for a rebate of \$2,938,725 less the net GST of \$45,000 which it owes on its taxable supplies. In practice, of course, it submits its rebate return and GST claim monthly rather than annually.

The major benefit of this kind of system is that it saves MUSH institutions the need to track input credits on commercial supplies while preserving a reasonable measure of competitive equity with the private sector. The Committee believes this is a better alternative than providing a 100% rebate on GST paid on purchases and then making adjustments through the transfer payment system.

The AUCC proposed that there be a simplified method of rebate calculation under which GST on all purchased goods and services bought by universities would be rebated at a standard rate, whether they were to be used to supply taxable activity (a bookstore or cafeteria); exempt activity (teaching); or zero-rated activity (staff assistance to a developing country). Under this system, commercial activity such as a bookstore would receive rebate on inputs at a standard rate of perhaps 80% (in the AUCC example) rather than the standard 100%, while GST would be collected and remitted on taxable sales at the full GST rate.

This approach would greatly simplify accounting in the MUSH sector, but could be unfair to those institutions which have a relatively high proportion of taxable activity in their operations. While it could be offered as an option, the Committee prefers instituting a streamlined accounting system along the lines outlined above.

The Committee recommends:

67. **That the Departments of Finance and of National Revenue work with MUSH institutions to develop a streamlined accounting system that will simplify their accounting for the net amounts of GST payable on their taxable supplies.**

The Committee believes this recommendation would contribute in a major way to reducing the administrative complexity and costs of the GST in the MUSH sector.

The FCM also expressed concern at the added costs to municipalities of paying provincial sales taxes on top of GST which is subsequently rebated. This issue is related to the

“tax on tax” issue discussed in Chapter I. According to the Federation, the added cost of the provincial tax levied on municipal inputs, because of the GST, could be as much as 0.7% of the value of purchases.

The Committee notes that this would not be a problem if the two levels of government were to agree to join in a national sales tax. Municipalities are closely related to provincial governments, and the Committee believes that this problem should be resolved at the provincial level.

A number of issues raised by universities and colleges were resolved by the Department of Finance during the course of the Committee’s hearings. Students not intending to proceed to a degree — or whose intentions are not known — will be able to take university courses without being charged GST, for example, provided that the courses are part of a degree-granting program. The conditions for exempting meal plans for students in residence have been relaxed. Universities have been assured that student council, library, and various other fees that are paid at registration will be exempt if the course is exempt.

The Canadian Association of University Teachers had some specific concerns with respect to university-based research. If companies paid GST on research grants to universities, the CAUT said, there would be a danger the activity would be considered as a taxable business and money meant for scientific activity would be drained away in federal income tax. University research would also be at a disadvantage to that in the private sector, because the GST paid on inputs would be only partly rebated whereas full input credits would be available for researchers in industry.

In the Committee’s view, the problems for scientific research under the GST are mainly ones of perception. Major university-based research programs attracting commercial support will likely want to be registered for GST in order to benefit from input tax credits. In net terms, there will be no difference on the balance sheet for a company between making a research donation to its local university without paying GST or entering into a research contract which is taxed and immediately refunded.

The McMaster Students’ Union were concerned that students earning under \$6,175 per year would not be eligible for the \$140 additional credit provided for low-income single adults, despite the fact that many students in this income category would pay GST with money borrowed through student loans as well as with income. This issue is addressed in the Committee’s proposals to reduce the rate of GST and change the proposed GST Credit.

For school boards, the administrative problems raised by the GST could reach down into the classroom. A number of activities related to education programs are likely to be considered as taxable supplies, such as the rental of textbooks, the rental of instruments to students in a school band, and the sale of car repairs or beauty treatments from high school vocational programs. An exemption may be justified for such activities when they are an incidental part of an education program.

A number of witnesses expressed concern at the impact of the GST on cash flow and related costs in the MUSH sector. In the Committee's view, this concern is not justified. A municipality with a \$200 million budget and \$60 million in purchases subject to GST would be liable to pay approximately \$450,000 per month in GST on its purchases if the GST rate were 9%. It would be entitled to a rebate of perhaps \$337,500 and if this was paid within 30 days, the municipality would suffer a continuing draw of \$337,500 on its cash flow — the equivalent of 0.16% of its budget. If the funds required were borrowed, the interest cost would be equivalent to 0.02% of the operating budget, or just \$2 in every \$10,000.

Also of concern was the provision that interest be paid on GST rebates to the MUSH sector beginning 60 days from their being filed, whereas claims for input tax credits will begin to draw interest after 21 days. As recommended earlier, the Committee believes interest on MUSH rebates should also begin after 21 days.

It was submitted that the government's pledge not to increase sales tax on the MUSH sector would require exemption from the impact of any future increase in the GST. The committee does not accept this contention.

In the past, exemptions from federal sales tax brought the effective federal sales tax rate on MUSH institutions down to a very low level; but if the tax was raised by 10%, i.e. from 10% to 11%, then the federal sales tax borne by the institution would also rise by 10%, for example from 1.6% to 1.76%. The rebate formula in the TP will result in a percentage of rebate which will preserve each MUSH sector's relative position. Hence an 11% rise in the general rate of GST would result in an 11% increase in the institution's much lower net rate of GST, just as under the current system.

Under the rebate system proposed in the Technical Paper, MUSH institutions will have net rates of GST in the 2% to 3% range if they contract out services such as catering and cleaning, and would pay a net rate of perhaps 0.5% to 1% if they perform the service in-house. As discussed earlier in this report, the Committee does not believe that tax differentials such as this represent any significant competitive distortion or incentive to self-supply.

The federal government intends to pay GST rebates directly to eligible institutions rather than to the provincial governments, despite the request of certain provinces (notably New Brunswick) that they receive the rebates first. New Brunswick's argument is that direct payment of the rebate will lead to the perception that provincial support for institutions is down (because it is worth 9% less due to GST) while federal support is up (because of payment of the 4.5% rebate). It can be argued in response that the federal government currently collects some federal sales tax from these institutions, and that the tax/rebate system is simply a means of maintaining the federal tax at about the current level.

A number of institutions expressed concern about how rebates will be paid on broader grounds. If rebates of GST paid by the MUSH sector were channelled back to institutions via the provinces, they said, the provinces might divert the rebates and use them for other purposes while the MUSH institutions bore the increased costs of paying GST on all their

purchases. Such a change from the Technical Paper proposal was strongly opposed. The Committee agrees, and recommends:

68. That, as proposed in the Technical Paper, rebates of GST paid on purchases be paid directly to MUSH institutions rather than being paid through provincial governments.

Under Section 87 of the *Indian Act* Indians are exempt from federal taxation on their personal property situated on a reserve, as well as their interest in reserve or designated lands.

However, the precise scope of this exemption raises several questions of interpretation under the *Indian Act*; does the exemption apply to services as well as goods? does the exemption apply to purchases made off a reserve? do some Indians have rights to an exemption by virtue of certain existing treaty rights over and above the provisions of the *Indian Act*?

The Technical Paper has made no proposals in this area but indicates the government will wish to consult with representatives of the Indian community.

The Committee heard from many Indian leaders across Canada with respect to these issues as well as from businesses concerned with the tax treatment of Indians.

It was represented to the Committee by Chief Roland Crowe of the Federation of Saskatchewan Indian Nations that the best method to ensure compliance with s. 87 of the *Indian Act* was to provide that upon presentation of a card or certificate proving status as a registered Indian vendors would be allowed to waive collection of GST on the sale of otherwise taxable goods and services. Such a system using "exemption cards" is followed by several provinces in relieving Indians of provincial sales taxes and given that the GST will now make federal sales tax visible at the point of sale such a system could also be adopted by the federal government.

However a system of exemption cards does raise several problems. Firstly, this system would arguably go beyond the provisions of Section 87 in that it would exempt all persons showing proof of Indian status wherever they made a purchase whereas Section 87 may, arguably, apply only to purchases that occur on reserve property.

Secondly, an exemption card system can create administrative problems for retailers. The Committee was told by representatives of the Hudson Bay Northern Stores that where retailers operate on a reserve or near a reserve it is often difficult to determine among many native people who is a "carded" status Indian and who is not, especially when many native customers often do not bring their card. As well, many younger people do not have an exemption card and this creates further difficulties. In addition to these problems in stores on or near reserves, it was pointed out that in many larger urban areas retailers are not familiar with exemption card systems since they do not encounter them as frequently. This naturally causes further problems for such retailers.

Thirdly, provincial retail taxes are calculated on a tax extra basis, that is, tax is calculated separately at the point of sale on the price of goods. Thus retailers presented with a provincial exemption card simply do not add on the provincial tax to the price of goods. But under the GST retailers are given the option to sell either tax extra or tax included. For retailers selling tax included, that is, selling with tax already included in the price of goods before the final sale, the presentation of an exemption card would require them to perform a calculation at the point of sale in order to back out the GST component from the tax included price of goods. Clearly this would impose a considerable burden on those retailers using the tax included option.

Finally, apart from these administrative considerations the Committee also heard representation from Indians during its hearings in the Yukon and the Northwest Territories that exemption cards attached a social stigma to Indians in that they were treated in one manner at the cash register while all other customers were treated in differently.

Another approach for relieving the imposition of GST on Indians was put forward by the Hudson Bay Northern Stores. They suggested that the tax apply universally to all customers but that status Indians be allowed a credit through the income tax system to fully reimburse them for any GST paid. Thus the need for a point of sale exemption would be eliminated. Under such a system Indians would remain eligible for GST credits but would be allowed an additional top up for any GST paid over and above the normal credit. Since such a system would be administered through the income tax act it would also provide a check on abuse of the s. 87 exemption as refund claims for the sales tax paid on purchases could be cross checked against declared income. Like the exemption card system this approach would also require a determination as to whether the s. 87 exemption was intended to apply to purchases by status Indians off the reserve.

The Committee also heard representations from the Council of Yukon Indians and the Dene-Metis Secretariat with respect to the impact of GST on their land claim negotiations.

The Dene-Metis Secretariat stated that the s. 87 exemption will not apply to their land claim settlements as it does to other Indian reserves. They represented that any GST exemptions extended under s. 87 should also extend to Dene-Metis settlement lands.

The Yukon Council of Indians represented to the Committee that in their preliminary land claim negotiations with the Government of Canada they had agreed to forgo any recourse to s. 87 as a condition of their land claim settlement. However, they made this undertaking on the understanding that s. 87 would not confer any advantage on status Indians under the GST. In the event s. 87 does confer special benefits on status Indians they represented to the Committee that they would seek greater compensation under the terms of their settlement if recourse to s. 87 were to be relinquished.

A) Exempt Treatment of Financial Services

The Technical Paper proposes to “exempt” the supply of financial services to consumers and businesses and to “zero-rate” the supply of financial services to non-residents. Consequently, GST will not be payable on the consideration paid for receiving a financial service, such as interest paid by a borrower on a consumer loan or interest paid by a bank in respect of monies held on deposit, whether the supply is made by a consumer, a financial institution, or any other business. Moreover, financial institutions generally will not be entitled to recover input tax credits with respect to any property or services they purchase for use in making an exempt supply of financial services. Under the Technical Paper, input tax credits would be allowed to financial institutions, however, for the taxes paid on purchases used in making taxable or zero-rated supplies. The definition of “financial services” and the allocation rules for income tax credit entitlement purposes are discussed below.

(i) Why Exempt Financial Services

The decision by the Department of Finance to propose “exempt” treatment of financial services was driven by the technical difficulty in treating financial intermediation services as a taxable supply.

For most services, the “value added” can be measured as the difference between the amount charged by the supplier for the service and the cost of any goods and services (excluding wages and salaries) used in making the supply. In the case of financial services, however, it is virtually impossible to apply this approach to calculate the value added. For example, the value added by a financial intermediary in a loan transaction is the portion of the total charge that represents the amount the intermediary receives for supplying the “service” of bringing together a “lender” (the depositor) and the borrower. In theory, this might be calculated as the spread between the interest paid by the financial intermediary on deposits plus an allowance for credit risk and the interest it charged on the loans. In practice, however, it is virtually impossible to calculate the value added through financial intermediation in any particular transaction for a number of reasons. A financial institution may provide services without any explicit fee, such as “free” or “no-charge” chequing; the cost of such services to the purchaser may be an “implicit” charge recovered, without being identified specifically, by reducing the interest otherwise payable on deposits. Moreover, financial intermediation transactions may be funded through a variety of sources (e.g., demand deposits, interest-bearing savings accounts, guaranteed investment certificates), making it difficult or impossible to identify the specific interest expense incurred by a financial institution in making a particular loan.

Since the value added in any particular financial intermediation transaction cannot be identified with certainty, it is not practicable to treat these transactions as taxable supplies under the GST.

(ii) *The “Margin” Tax Proposal*

The Department of Finance has indicated that the so-called “margin tax” on financial intermediation services determined on an aggregate basis, as outlined in the June 1987 White Paper, was flawed and that it is not practicable to proceed with such a proposal at this time. A number of financial institutions concurred with this view, including the Canadian Life and Health Insurance Association Inc. and the Trust Companies Association of Canada. Others, such as the Canadian Bankers’ Association, referred to the Department of Finance’s comments by way of background without commenting on the feasibility of correcting the perceived deficiencies in the margin tax proposal. No financial institution, however, proposed returning to the “margin tax” in place of the exempt treatment of financial services proposed in the Technical Paper.

Recognizing the technical difficulties inherent in treating financial services as taxable supplies, the Committee concurs with the Technical Paper proposals to treat financial intermediation and related financial services as exempt supplies.

B) Definition of “Financial Services”

Having determined that financial services would constitute an exempt supply, it becomes necessary to determine which of the services supplied by financial institutions should be exempted as “financial services” and which should be categorized as “taxable” or “zero-rated” supplies.

The Technical paper identifies two competitive equity considerations to be balanced in determining which services are to be included in the tax-exempt category of financial services:

The range of services to be exempted as financial services has been formulated by balancing the following competitive equity considerations:

- ° On the one hand, the range of exempted services should be narrow in order to preserve tax neutrality with other equity considerations.
- ° On the other hand, services which are closely related to the intermediation process should be exempt to minimize the incentive to combine these fees with interest charges in an effort to avoid the tax.

The Technical Paper goes on to provide examples of taxable supplies and exempt supplies by sector for banks, trust and loan companies and financial co-operatives; life and property and casualty insurers; and investment dealers.

(i) Property and Casualty Insurance

The Committee received only one specific request for reconsideration of exempt treatment. The Insurance Bureau of Canada and The Laurentian Group Corporation, among others, requested that the Committee recommend that property and casualty insurance services be treated as a taxable supply instead of an exempt supply.

The Insurance Bureau of Canada submitted that the proposed exempt treatment of property and casualty insurance services will substantially increase the operating costs of the industry by denying input tax credits for the tax payable by an insurer in respect of payments it makes for the repair or replacement of property loss or damage. It was submitted that the resulting higher cost in claims settlements will be passed through to businesses and consumers in the form of higher insurance premiums. It was further submitted that this is an inappropriate result, because a business that itself paid to replace or repair property used in making a taxable supply would obtain a full input tax credit.

The Insurance Bureau of Canada also told the Committee that the proposed exempt treatment of property and casualty insurance could result in compliance problems in allocating inputs between exempt and zero-rated supplies (ie., exports) and would create a bias in favour of unlicensed non-resident insurers.

It was pointed out by several witnesses that the government of New Zealand, when it enacted a goods and services tax, treated property and casualty insurance as a taxable supply.

As we understand it, the denial of input tax credits in respect of payments by an insurer for the repair or replacement of property arises from the manner employed to settle loss or damage claims. To control the cost of claims, the property and casualty insurance companies make payments direct to suppliers of replacement property or repair services. The insured who is a registered vendor could claim an input tax credit where the goods are used in making taxable supplies if payments were made by the insurer to the insured under the insurance policy and the insured paid for the replacement or repair of property. The Insurance Bureau of Canada argued, however, that such a change would result in substantially inflated costs for the repair of damaged goods.

The Committee is sympathetic to the industry's request for taxable treatment of property and casualty insurance. However, the Committee notes that a significant element of an insurer's business is the investment of the funds it receives as premiums. It would, in the Committee's view, be inequitable to grant the tax relief requested by property and casualty insurers unless this financial intermediation activity can be taxed in a manner equivalent to that applicable to financial intermediation activity carried out by other financial institutions.

Moreover, it is not entirely clear that an alternative approach, such as allowing a registered business carrying insurance to claim an input tax credit by treating the insurer's payment as a payment paid by the insured for the replacement property or repair services, would not respond more appropriately to the problems raised by the property and casualty insurance industry. The Committee therefore accepts the Technical Paper proposal to exempt property and casualty insurance services.

The Committee therefore recommends:

69. **That the Department of Finance give consideration to the appropriate means by which input tax credits on business inputs supplied to registered vendors pursuant to a property and casualty insurance policy could be allowed.**

(ii) Gold, Platinum and Silver Coins

The Technical Paper proposes that the initial supply of "investment quality precious metals" by domestic refiners be zero-rated. Similarly, the importation of investment quality precious metals would not be subject to tax on importation. Subsequent supply of investment quality precious metals for investment purposes would be taxed in keeping with the exempt treatment afforded to investments in financial instruments.

To qualify for treatment as investment quality, the precious metal would have to be in the form of a bar, coin, or wafer and would have to be refined to a purity level of at least 99.5% for gold and platinum and; 99.9% for silver.

The Committee received a representation from the Canadian Association of Numismatic Dealers (CAND) that the effect of setting those purity levels would be to deny exempt treatment to most investment grade coins other than the one-ounce gold Canadian Maple Leaf and the one ounce silver Canadian Maple Leaf. CAND stated that many gold and silver coins trade entirely on their bullion value and on the same investment criteria as Maple Leaf coins but that those coins falling below the purity levels set out in the Technical Paper would be fully taxable. This discriminatory tax treatment would drive much of the investment coin market underground. Moreover, the discriminatory tax treatment between Maple Leaf coins and, for instance, U.K. Britannia and U.S. Eagle coins could invite allegations of unfair trade practices.

CAND requested that the criteria for the exempt treatment of investment quality precious metals be amended to include an exemption for gold and silver bars, coins and wafers where the premium charged over the intrinsic value of the precious metal did not exceed 15% of the precious metal's market price as established by the Handy and Harman (Canada) noon quotation for gold and silver.

The Committee is concerned that the proposed criteria put forward by CAND could present difficult audit and compliance problems as it would make the sale of a particular coin taxable or exempt, at any particular time, depending upon the spot price of precious metals at that time. The Committee is concerned, however, that the

proposed standard, in the case of coins, could invite allegations of discriminatory treatment.

Through representations from CAND and through consultations with the Royal Canadian Mint the Committee has learned that numerous investment grade gold coins would fall below the proposed purity level of .995/1.000 fine and be ineligible for an exemption. These include:

United States one-ounce Eagle (.9166/1.000)
United Kingdom one-ounce Britannia (.9166/1.000)
Mexico 1.205-ounces 50 peso (.9000/1.000)
United Kingdom .2325-ounce gold sovereign (.9166/1.000)

In addition, numerous investment grade silver coins would also fall below the proposed purity level of .999/1.000 fine. These include:

Canadian 1966 and prior silver coin .800/1.000
United States 1964 and prior silver coin .900/1.000
Canadian 1976 Olympic coins .925/1.000

Consultations with the Royal Canadian Mint have confirmed that most numismatic coins purchased as collectibles have a bullion content of no more than 50% to 65%, whereas coins purchased for investment as precious metals have a bullion content of at least 90%.

The Committee therefore recommends:

70. That the definition of investment quality precious metal be amended to include gold and silver coins with a purity level of at least 90%.

C) Definition of “Financial Institution”

The Technical Paper indicates that “the proposed rules for financial services will primarily affect a specific group of registrants — such as banks, trust companies, insurers, financial cooperatives and investment dealers — since the vast majority of financial services are provided by these institutions”. The Technical Paper states that virtually all businesses are engaged in financial activity to some extent but for most firms these activities are only ancillary to their other activities.

The Technical Paper provides that registrants will not be required to allocate inputs to any supply of financial services where the annual revenue of an income nature received for the supply of financial services is less than \$10 million and less than 10% of the total annual revenue from all supplies. In the result, registrants falling outside this *de minimis* rule would receive a full input tax credit for the tax paid on good and services used in making exempt supplies of financial services.

The Technical Paper contemplates that there would not be an explicit definition of a financial institution.

The Draft Legislation, however, contains a specific definition of a financial institution that goes beyond the *de minimis* rule described in the Technical Paper. Under the proposed definition of a financial institution set out in the draft legislation, a person will be a financial institution if it meets any one of the following three tests.

Under a “status” test a person will be a financial institution if, throughout the taxation year, it is a bank, trust company, credit union, caisse populaire, investment dealer, stock broker or insurance company. This test should include most persons licensed or regulated as financial intermediaries.

Under the “principal business” test a person is a financial institution if throughout the taxation year its principal business is lending money or purchasing debt securities or a combination of these.

Finally, under a “revenue” test, in very general terms, where a person’s “financial” revenue for the preceding year exceeds 10% of the person’s total revenue or \$10 million, the person will be deemed to be a financial institution. More specifically, under this test, a person is a financial institution for a particular taxation year if:

- (i) the total amount included in computing the person’s income from a business, for purposes of the Income Tax Act, for the immediately preceding taxation year that is interest, a dividend (other than a dividend in kind), or a separate fee or charge for a financial service exceeds either:
- (ii) 10% of the total of the aggregate described in (i) and the aggregate value of all consideration that became due in the preceding taxation year, or that was paid in that preceding taxation year without becoming due, to the person for supplies other than supplies by way of sale of capital property of the person or supplies of financial services made by the person, or
- (iii) \$10 million (pro-rated to a lesser figure for a short taxation year).

The Committee agrees that for reasons of competitive equity, it is appropriate that the term financial institution extend not only to regulated entities but to persons whose principal business is providing financial services. We question, however, the need to preserve the entire *de minimis* rule contemplated in the Technical Paper in light of the inclusion of a principal business test in the draft legislation. The Committee believes that the term financial institution should be defined so as to include only persons who can reasonably be regarded as direct competitors with financial institutions in respect of the supply of financial services. We are concerned that the *de minimis* rule proposed would include holding companies and other corporations that cannot reasonably be regarded as competing with financial institutions.

The Committee believes, as a general principle, that it is appropriate to include within the term financial institution any person whose gross income from interest and dividends included in income from a business for Canadian income tax purposes exceeds \$10 million. In this regard, assuming an average rate of return of 10% per annum, this test would generally apply only to persons with interest — or dividend-yielding investments in excess of \$100 million. However, given that this rule is intended to bring within the meaning of financial institution persons competing directly with other financial institutions, the Committee believes that in computing gross income for the purposes of the revenue test, interest and dividends received from related persons should be excluded.

The Committee also questions the need for the 10% rule given that a principal business test already exists. The 10% rule creates a hairline trigger that could produce anomalous results for holding companies and for corporations with short taxation years. Moreover, the Committee seriously questions whether, for example, a corporation with \$10,000 of interest income from investments in term deposits or second mortgages, but whose principal business is not lending money or dealing in debt obligations, can be regarded as a competitor with financial institutions. The Committee believes there is a serious risk that, contrary to the intention of the Technical Paper, the 10% rule could apply to persons whose financial services activity is merely ancillary to their other business activities. In the Committee's view, the inclusion of such persons within the definition of a financial institution is not warranted.

The Committee therefore recommends:

- 71. That the 10% rule should be rescinded and a revenue test should apply to persons whose annual revenue in the immediately preceding taxation year, in the form of interest and dividends received from unrelated persons and required to be included in income from a business for Canadian income tax purposes, exceeded \$10 million, or a pro-rata amount for a short taxation year.**

D) Allocation Rules for Input Tax Credit Entitlement

The Technical Paper indicates that registrants will allocate inputs between their use in making taxable and zero-rated supplies and exempt supplies using a method suitable in the circumstances, with the method to be subject to audit by Revenue Canada. It states further that prior to implementation the government will be providing guidelines with illustrative methods for allocating inputs for the purpose of claiming input tax credits.

Registrants who fall outside the definition of a financial institution, discussed further below, will not be required to allocate inputs to any supply of financial services.

The Canadian Bankers' Association requested that the Committee recommend that the allocation rules for determining input tax credit entitlement be administratively simple to reduce compliance costs for financial institutions. The Draft Legislation provides that where substantially all of the use or intended use of a property or service is in a commercial activity (i.e., a taxable supply), it will be regarded for GST purposes as being used exclusively in a commercial activity.

The Technical Paper proposes that for both real property and capital goods, input tax credits be allowed to the extent such properties are acquired for use in making taxable or zero-rated supplies under the proposed change-in-use rules; however, a “significant” change of use of real property or capital goods by a financial institution may trigger a further input tax credit where the use in making taxable or zero-rated supplies increases, or a tax liability based on the fair market value of the property at the time, where its use in making exempt supplies increases.

The Draft Legislation proposes that, for the purposes of the change-in-use rules, a change in the use of property from use primarily for one purpose to use primarily for another purpose is not insignificant, but any other change of less than 10% of the total use of the property is insignificant.

The Canadian Bankers’ Association represented to the Committee that input tax credits should be recoverable by all businesses, including banks, to avoid an indirect form of taxation, cascading and the possibility of double taxation. The Laurentian Group Corporation stated that that life insurance should be zero-rated, “so that savings inherent in life insurance products would not have to bear the GST”, and that for banks and trust company services, “the list of tax-exempt services [should] be revised to ensure that the GST on inputs will be fully absorbed by taxes on services so as to eliminate the possibility of the cascading effect of any unrecoverable taxes on inputs”.

The Committee believes that, in an ideal system, the value added in supplying financial services should be fully taxable, with full input tax credit entitlement to both the financial institution and any registered business receiving such supplies. However, given that the technical difficulty of designing such a tax led to the adoption of exempt treatment of financial services, the Committee does not believe it follows that the input tax credit entitlement rules should be established in such a way as to permit financial institutions to receive an input tax credit for all inputs, including those used in making exempt supplies of financial services. This would amount to zero-rating the supply of financial services.

The Committee believes it is appropriate for the financial services sector to bear its fair share of tax and that the proposed denial of input tax credits relating to the supply of exempt financial services is therefore entirely appropriate.

The Committee is concerned that financial institutions may structure their affairs to avoid any disallowance of input tax credits in respect of supplies they use to make exempt supplies and that considerable audit and compliance costs will arise for both government and industry. The Committee therefore proposes that the right of financial institutions to allocate a taxable supply purchased by it to the taxable supplies it makes for input tax credit entitlement purposes should be restricted to where substantially all of the purchase supply is used in making taxable supplies. Nevertheless, to avoid harming the global competitiveness of the industry, the Committee would permit financial institutions to claim a pro-rated input tax credit for supplies used in making exported services.

The Committee therefore recommends:

72. That, unless substantially all (i.e., 90%) of a taxable supply purchased by a financial institution is used by it in the course of making a taxable supply, the input tax credit entitlement of such financial institution be limited to the portion of the purchased taxable supply that can reasonably be considered to have been used by it in making zero-rated supplies described in Part IX of Schedule II.

E) Group Relief for Inter-Company Transactions

The Technical Paper proposes no group relief for inter-company transactions within a related group of companies. Consequently, the value added in supplies between related members of a group will be subject to GST unless the supplies are otherwise exempt or zero-rated. This is of particular concern to financial institutions because they will be denied input tax credits with respect to goods and services purchased for making an exempt supply of financial services.

The Technical Paper does recognize that special rules may need to be developed in limited circumstances, such as for data processing services, and goes on to state that discussions with the affected financial institutions will be held.

The Committee received various representations from financial institutions, including the Canadian Bankers' Association, the Canadian Life and Health Insurance Association Inc., The Laurentian Group Corporation and the Trust Companies Association of Canada, requesting that group relief rules be adopted.

Under true group relief rules, for the purpose of determining input tax credit entitlement, inter-company transactions are ignored. Instead, input tax credit entitlement would depend upon the nature of the supply made by the purchaser company. Since the purchaser company may in turn perform a service for another related company, it may become necessary to look through a series of transactions between related companies to determine the input tax credit entitlement of the first supplier.

The Committee is sympathetic to the request of the financial services industry for group relief rules, and recognizes that competitive inequities may result if no group relief rules are adopted. It is concerned, however, about the lack of detail with respect to input allocation rules and the possibility that, as in Europe, group relief rules could permit tax avoidance.

The Committee therefore recommends:

73. That the Minister of National Revenue be permitted to grant group relief to particular named corporations with respect to specified types of transactions with financial institutions (including data processing, management, accounting and administrative services).

F) Relief for Transactions Between Credit Unions and Between *Caisses Populaires*

The Committee received representations from the Canadian Cooperative Credit Society and the *Fédération des Caisse Populaires et d'Économies Desjardins* to the effect that a group relief rule would not give proper GST relief to these sectors of the financial services industry. The Committee was told that credit unions and caisses populaires are structured along co-operative lines under which unrelated entities within a federation perform services for each other. It was submitted that treating these transactions as taxable supplies would result in a particular hardship and competitive inequity to credit unions and *caisses populaires* because of the lack of integration in these sectors, as compared with Schedule A banks, which would generally operate on a branch basis throughout Canada.

The Canadian Cooperative Credit Society requested that transactions between credit unions be tax-exempt. Similarly, the *Fédération des Caisses Populaires et d'Économies Desjardins* requested that transactions between financial institutions be tax-exempt.

The Committee therefore recommends:

74. That, if group relief is provided for transactions between financial institutions and related corporations, comparable relief should be extended to transactions between *caisses populaires* and credit unions with like institutions that form part of a federation.

G) Self-Supply Bias

The Committee received representations from various witnesses to the effect that financial institutions may have a strong incentive to self-supply services used in making exempt supplies of financial services. Since wages and salaries are excluded from GST, a financial institution could minimize its GST liability by self-supplying services instead of purchasing these from third parties.

While zero-rating, instead of exempting, financial institutions would remove any incentive to self-supply, it would also eliminate any tax liability for this sector. Such a proposal should be coupled with some other form of taxation, such as a capital tax, which would result in the financial services sector bearing a fair share of tax.

Another approach would be to impose a tax on the self-supply of services by financial institutions. The first difficulty in legislating such a tax would be identifying where competitive considerations would require a tax on self-supply to be imposed. One would not, for example, expect a bank to be liable, under a self-supply rule, for tax on a bank teller's services. How would one distinguish, for purposes of a self-supply rule, between the services performed by bank vice-presidents and those performed by outside consultants? Should the self-supply of cleaning services be taxed?

A second difficulty would be devising a fair rule to value the services that are to be taxed under a self-supply rule. Should the services be taxed at their fair market value; if so,

how would one determine this amount? Should they be valued at an amount equal to the direct labour cost or include amounts for indirect labour and for profit?

The Committee recognizes that, given the exempt treatment of financial services, financial institutions may choose to self-supply certain services. It should be recognized, however, that in many areas there will be offsetting disadvantages to the self-supply of services. For example, a financial institution might attempt to reduce its GST liability by bringing cleaning services in-house, but in so doing it would incur employment obligations to the cleaning staff, as well as compliance costs, the total cost of which might exceed the tax savings.

The Committee therefore recommends:

75. That no self-supply rule be enacted for financial institutions.

The Committee is concerned, however, that certain suppliers, such as property and casualty appraisers/adjusters, are so integral to the operation of property and casualty insurance companies that for the purposes of the GST they should be regarded as employees or agents of such companies.

The Committee therefore recommends:

76. That all supplies made by a property and casualty appraiser or adjuster who performs all of his or her services for one or more property and casualty insurance companies be treated as an exempt supply.

H) Transitional Rules

The Committee received representations requesting transitional rules with respect to two areas relating to financial institutions.

(i) Supplies of Financial Services

Several witnesses, including the Canadian Bankers' Association and the Canadian Life and Health Insurance Association, requested that long-term contracts for the supply of financial services, such as mortgages and life insurance policies that straddle January 1, 1991 be treated as zero-rated supplies instead of exempt supplies. It was submitted that exempt treatment of such supplies would be inequitable because financial institutions would be unable to reprice the supply of financial services under such contracts to take into account the denial of input tax credits on goods and services acquired for use in making such supplies; consequently the GST paid by financial institutions in making such supplies would have to be recovered from customers entering into contracts after January 1, 1991 or reflected in lower profits. Either result, it was submitted, would be inequitable.

The Committee notes that financial institutions had notice no later than August 8, 1989 of the government's intention to extend exempt treatment to financial services supplied by financial institutions and therefore to include appropriate language in their contracts to permit them to adjust pricing if the government proceeded with the proposed GST. The

Committee therefore believes that no transition relief is warranted for contracts entered into after August 8, 1989.

No evidence was presented to the Committee with respect to the level of inputs that would be used by a financial institution in making supplies of financial services under contracts entered into before August 8, 1989. The Committee is not satisfied that the level of input tax credits relating to the supply of financial services under contracts made before August 8, 1989 warrants relief in the form of zero-rated treatment.

Moreover, the Committee is concerned that if services supplied under contracts entered into before August 8, 1989 were permitted to be characterized as zero-rated supplies, this could result in financial institutions receiving an excessive input tax credit entitlement in respect of inputs relating to services supplied under contracts entered into after 1990, by increasing the relative proportion of a financial institution's revenue that is derived from making zero-rated supplies.

The Committee therefore recommends:

77. That supplies of financial services made under contracts entered into before January 1, 1991 not be zero-rated.

(ii) Supplies Under Lease Contracts With Financial Institutions

The Committee received representations from the Equipment Leasing Association of Canada and the Trust Companies Association of Canada requesting that supplies made under leasing contracts entered into with a financial institution before January 1, 1991 be treated as tax-exempt supplies for GST purposes. It was represented that federal sales tax will have been paid on the acquisition of the capital goods that are the subject of such leases. The Committee was told that under the Technical Paper proposals, financial institutions may have an incentive to buy out such leases or convert them to conditional sales contracts before January 1, 1991 to avoid the application of GST to lease payments after that date.

As noted in Chapter 12, the Committee recommends that all leases of goods that are subject to federal sales tax and that were entered into before January 1, 1991 be given exempt treatment until December 31, 1993. This would permit equipment lessors to continue leasing to financial institutions until January 1, 1991. It is possible that financial institutions would enter into leases before the end of 1990 in order to avoid the non-creditable GST that would apply to such leases after 1990. However, since the equipment leased in 1990 would bear federal sales tax and the alternative for financial institutions would be to purchase the capital goods outright, the Committee does not believe this is a compelling argument against exempting such leases. The proposed exempt treatment should not be extended to real property since no federal sales tax is exigible with respect to such property.

This Chapter reviews the Technical Paper proposals to provide federal sale tax ("FST") relief and timing rules for transactions straddling the start-up date to the goods and services tax ("GST") system. It discusses witnesses representations and the Committee's deliberations, conclusions and recommendations regarding potential demand shifts, double taxation and increased contact costs. Transitional measures to ease compliance are contained in Chapter 4.

A) Technical Paper Proposals

No specific transitional rules are proposed in the Technical Paper for contracts, including leases, straddling implementation, or capital purchases prior to January 1, 1991 or commercial buildings under construction on January 1, 1991. However, several special arrangements are proposed to provide relief on transition for certain inventories and residential buildings under construction on January 1, 1991. Timing rules, in the context of transactions straddling the GST implementation date, are also outlined.

Taxable entities holding inventories of new and unused, FST-paid goods on January 1, 1991, will be entitled to a refund approximating the FST content of such goods where the goods are held in Canada for resale or lease. Included in the definition of new and unused goods for resale will be rebuilt and remanufactured goods, and new and unused contractors' building materials. Building materials that have been delivered to a job site will not qualify for the rebate. Recognizing that, in most cases, traders would have no knowledge of the actual FST content of their inventories, the Technical Paper proposes the estimation of tax content by use of prescribed formulae "suitably modified". No details regarding the process of estimation are provided.

A rebate of FST content will also be available on new single semi-detached and attached homes, where the purchaser has entered into a written agreement of purchase and sale prior to January 1, 1991 and takes possession for occupancy prior to March 31, 1991. The rebate will be paid to the purchaser and the amount will depend on the month during which the purchaser takes possession. The rebate will be 3/4 of the estimated FST per square foot if possession takes place in January, 1991, and 1/2 of the estimated FST per square foot if possession takes place in February, 1991. In the case of new condominium and rental apartment buildings under construction, the amount of FST rebated will depend on the actual degree of completion on January 1, 1991. It will be capped at 3/4 of the estimated FST content if the building is more than 50 percent completed and 1/2 of the estimated FST content if the building is between 25 and 50 percent completed. It appears this rebate would be paid to the developer/owner.

Generally, transactions entered into subsequent to December 31, 1990 will be subject to GST, while transactions entered into and completed prior to January 1, 1991 will not be

subject to GST. Transactions entered into prior to 1991 and completed subsequent to 1990 will, in most cases, be subject to GST, albeit on a modified basis. For transactions straddling the start-up date, the date of delivery or passage of title will generally determine whether GST applies. In the case of taxable supplies of real property, the date on which ownership or possession transfers will determine whether GST will apply. In the case of imports, the date of "release" of the goods from Canada Customs will be the determinant. Where a prepaid taxable service is substantially completed before the end of 1990, GST will not apply. Where a prepaid taxable service does not meet this criteria, tax GST will apply on a pro-rata basis. There are four overriding exceptions to the general timing rules in the context of transactions straddling the start-up date. Generally, these exceptions are:

- (i) simply issuing an invoice prior to 1991 for a supply occurring in 1991 will not avoid a liability for GST;
- (ii) the normal FST rules will apply if goods currently taxed are delivered, or the title to the goods is transferred, prior to January 1, 1991;
- (iii) no GST will apply if delivery or title transfer of goods not currently subject to FST occurs prior to January 1, 1991, and the vendor issues an invoice for the supply prior to March 1, 1991. This rule does not apply to lease payments for real or personal property, construction progress payments and telecommunication services; and
- (iv) payments to suppliers by corporations, partnerships and sole proprietors after August 31, 1989, in respect of goods to be delivered or services to be performed after December 31, 1990, will be subject to GST. Special rules are provided to determine whether the purchaser is required to self-assess or the vendor is required to collect the GST. If the payment by the purchaser is made prior to April 1, 1990 (and after August 31, 1989), the tax will be payable on a self-assessing basis on January 1, 1991. If the payment by the purchaser is made after March 31, 1990 and before January 1, 1991, the vendor will be required to remit the tax with his first GST return.

Lease payments made after January 1, 1991 will be subject to GST. Progress payments after December 31, 1990 in respect to commercial construction will also be subject to GST. Progress payments made prior to January 1, 1991 will not attract GST provided they are reasonably related to the percentage completion of the project at the time the payment is made. The normal FST rule will apply to all billings to users of telecommunications services and telecommunications programming services covering periods commencing prior to 1991 and ending before February 1, 1991. Billings for telecommunications services in respect of periods either beginning in 1991 or ending after January 31, 1991 will be subject to GST.

B) Witnesses' Representations

Many witnesses, including the University of Toronto Policy Analysis and the Economic Council of Canada represented a lower GST rate would ease transition. Also, many witnesses

represented the transitional rules were inadequate. Some had general concerns and recommendations others had more specific representations.

Witnesses, including the Retail Council of Canada, represented the need for sufficient lead time to implementation from the date the details on GST are finally and firmly established. The Hudson's Bay Northern Store Inc., represented the timetable, from the tabling of the legislation to the implementation of the legislation, was too short. The Federated Co-operatives Ltd. represented there should be a one year lead time to implementation after Royal Assent.

The Tax Executive Institute Inc. was concerned about lack of transitional relief for long-term contracts which are tax exempt, the necessity of apportioning GST on such things as maintenance contracts that expired during 1991, and the lack of FST relief for unused goods on hand at December 31, 1990.

Other witnesses represented the potential for tax cascading and increased costs on construction contracts. The Canadian Institute of Chartered Accountants, the Society of Management Accountants of Canada, the Retail Council of Canada, the Canadian Manufacturer's Association and the Canadian Exporters' Association all recommended that transitional rules should provide FST relief for capital goods acquired, and leases entered into, prior to January 1, 1991. They represented a risk of negative impact on pre-1991 demand for capital investment if transitional relief was not provided. Other witnesses, including the Equipment Lessors Association of Canada and the Canadian Automotive Leasing Association, also represented the potential for tax cascading on lease payments, and a risk of negative impact on pre-1991 demand for vehicle leases to individuals and persons providing exempt supplies.

Some recommendations were made to provide relief, the most popular of which was to provide partial FST rebate during 1990 on a sliding scale (either on a refundable basis or by way of an input credit to be offset against GST collected). Alternatively, the Canadian Institute of Chartered Accountants and the Canadian Exporters Association recommended accelerating capital cost allowance on taxable goods acquired or lease during 1990, or continuing the instalment contract provisions presently contained in the *Excise Tax Act*, that is, allowing the due date to determine whether GST applies rather than making the percentage of completion the determinant. Similarly, the Tax Executive Institute Inc. recommended providing transitional relief by way of either sliding scale partial rebates, accelerated capital cost allowance or continuation of instalment contract provisions.

Other witnesses represented concerns about the transitional rules for inventory. Representations were received both about the burden of having to count and calculate a value for inventory during a very busy commercial period of the year, and about the difficulties with determining FST content. For example, the Retail Council of Canada said that inventory estimates should be allowed to calculate the amount of the refund, with adjustments to actual physical inventory on hand at the end of January, 1991. The Canadian Council of Grocery Distributors, the Retail Council of Canada and the Retail Merchants Association of British

Columbia all suggested the tax introduction date should perhaps be moved to February 1, 1991.

The Tax Executive Institute Inc. represented the government should consult with the private sector regarding factors for recovering FST buried in prices, representing the existing formulae were not sufficient. The Retail Council of Canada also represented:

- a) the formulae for extracting the tax amount of tax-included inventories should be modified;
- b) suppliers should be obliged from January 1, 1990 to show separately the FST included in prices so that inventory rebate amounts could be more readily determined; and
- c) vendors should have the option of either an input tax credit or rebate, with interest from the date of entitlement, for FST content of inventories.

Other witnesses represented the transitional rules for new single semi-detached and attached homes should be improved. The Canadian Institute of Chartered Accountants stated:

"Since there are to be no grandfathering rules with respect to the GST, the full 9% (subject to any GST rebate) will be collected at the time of closing. If closing does not occur until March 1991, this individual will not be entitled to any FST rebate. Furthermore, depending upon the terms of the contract the developer may not be required to lower the agreed-upon purchase price for any FST savings he will realize under the new rules."

With respect to the rules for new condominiums, the Canadian Institute of Chartered Accountants indicated they did "not believe that these proposed rebates are adequate". The Canadian Home Builders' Association also represented the transitional rules for new housing should be improved, stating:

- (a) the provisions applying to housing are such that the availability of a credit for FST could be lost because of undue delays in construction due to strikes, adverse weather, material shortages or other reasons;
- (b) the inclusion of townhouse projects under the single-detached house transitional measure is not reasonable since townhouse projects are more comparable in terms of construction lead times to apartment projects than single-detached homes;
- (c) the proposal applying to rental apartment buildings are reasonable but should be extended to townhouse projects; and
- (d) fully completed condominiums and rental buildings should be rebated 100% of the FST. The builder, not the purchaser, should get the rebate.

The Canadian Home Builders Association also expressed concern regarding the lack of transitional measures for businesses involved with the acquisition, renovation and resupply of used housing, and for unsold finished new houses and unsold new houses in progress in inventory on December 31, 1990 and built "on spec" by builders. In addition, they represented it was unfair and unnecessarily disruptive for the marketplace that a purchaser, who signs an offer to purchase a condominium prior to 1991 for closing after 1990, should be subject to GST. Therefore, GST should not apply to condominium projects where:

- (i) construction has commenced or footings are in place prior to January 1, 1990;
- (ii) there is a written agreement of purchase and sale entered into before January 1, 1991; and
- (iii) legal transfer is effected before July 1, 1991.

The Canadian Home Builders Association represented the foregoing approach would allow many projects in progress, to avoid the application of the GST where prices may have already been fixed and units pre-sold. It suggested such projects should not qualify for a FST rebate on 1990 purchases or for GST input tax credits on 1991 purchases.

The Urban Development Institute also represented the transitional rules for new housing were too restrictive, and there could be "chaos" in the market place due to the single day implementation deadline. With respect to condominiums, they represented it takes roughly two years for a unit to be delivered, whereas a new single family homes can be delivered within three to four months. Thus, even in 1989, sales by condominium developers are subject to GST on closing, while competing sales by developers of other housing are not subject to GST.

The Urban Development Institute represented condominium sales are already being lost in 1989 because of GST proposals, at a time when the proposals have not even reached the legislative stage. In order to place vendors of condominiums and houses on roughly the same footing, the Urban Development Institute suggested that condominium units sold prior to September 1, 1990 be given tax-exempt status and, consequently, that builders not be granted input tax credits for materials incorporated after 1990.

In addition, the Urban Development Institute, among other witnesses, expressed concerns regarding non-residential complexes, representing that to avoid double taxation in the hands of the eventual purchaser or tenant, relief of the FST imbedded in the cost of property should be provided for commercial properties under construction on January 1, 1991 and existing commercial properties. The Canadian Construction Association added its support to this recommendation. Many witnesses also represented to the Committee that completed commercial properties in use should benefit from a FST rebate, for reasons of competitive advantage with buildings completed after 1990 with regards to the sale or rental prices.

C) Committee's Conclusions and Recommendations

The Committee sympathizes with the concerns about lead time and encourages release as soon as possible of final legislation including that regarding rebate percentages, allocation methods and transition. The Committee also considered carefully the comments that a lower GST rate would ease transition. This concern was one of the Committee's reasons for recommending the lower rate of GST outlined in Part B 2. of this report.

The Committee recognizes one of the first problems concerning transition is that of the public's perception to the GST. The Committee therefore encourages education of the public, including businesses, to make transition as smooth as possible, and supports the governments efforts in this area. However, the Committee was less certain of the fairness of the other government proposals to smooth transition and especially witnesses representations regarding the unfairness of FST-paid goods being subject to GST. Because of the many representations regarding potential demand shifts, double taxation and increased costs in certain contracts straddling implementation of the GST, the Committee felt it desirable to establish some guidelines with respect to when transitional relief should be provided.

It considered the implications and possible impacts of the transitional relief lacking, and the transitional relief proposed. The Committee concluded that deficit concerns precluded relief unless direct double taxation would result. If relief was granted where no direct double taxation would occur, but only a risk of demand shift was evident, then the effect on all industries would have to be considered, not just areas of concern to witnesses who appeared before the Committee. For example, the clothing industry could experience a boom at the end of 1990 and a slow-down in early 1991, but no representations were received by this industry for transitional relief. Also, the Committee concluded that, because of revenue concerns, it could not recommend relief of FST on inputs acquired prior to the implementation of the GST. The Government cannot be expected to provide relief for cascading caused by the defects in the current FST system.

1. Capital Goods

The Committee recognizes that potential demand shifts may occur if transitional rules with respect to capital goods are not provided since capital assets purchased prior to January 1, 1991 will have both direct and indirect FST content. However, the effect on the deficit of pre-GST transitional rules must also be considered and weighed against the potential deferral of purchases.

Indications are that the sliding scale refundable or creditable FST rebate proposal suggested by a number of witnesses may have a negative revenue impact of \$1.5 billion. Proposals to accelerate capital cost allowance on FST taxable goods would also involve very substantial amounts of revenue that would be difficult to accommodate during this period of fiscal constraint. The Committee was concerned about the substantial revenue loss created by these schemes.

It therefore considered many other detailed methods to ease demand shift pressure. In general terms, schemes to avoid revenue loss, make the measure to ease transition self paying and perhaps even allow further incentives or other measures during transition, included:

- (a) phasing in the input tax credits on FST taxable goods purchased in 1991;
- (b) granting full credit for capital goods bought after the change to the new system, however, at the same time, imposing a special investment tax on FST taxable capital goods purchased prior to implementation, and reducing by stages that investment tax over some succeeding period;
- (c) granting full credit for capital goods bought after the changeover to the new system, however, at the same time, reducing capital cost allowance for a period after GST implementation on FST taxable capital goods purchased prior to GST implementation; and
- (d) combinations of the foregoing schemes and the suggestion by witnesses to provide sliding scale FST rebates for 1990 purchases.

The advantage of the “phase-in” methods is that transition could be made revenue neutral, and/or additional revenue could be received to allow additional fees to compensate for transition costs of businesses, while substantially eliminating the demand shifts that might otherwise occur. The principal difficulty associated with a “phase-in” of input tax credits after GST implementation is that they would be inconsistent with the principle of relieving all tax from inputs used in making taxable supplies. Also, a phase-in of input tax credits would delay the realization of the long term positive economic impacts of the new system.

The proposal for accelerated capital cost allowance and investment tax on post implementation purchases could similarly have a favorable revenue impact but unfavorable capital expenditure (and economic) growth impact. In addition the Committee could not ignore the additional compliance, administrative and legislative complexities. The combination schemes had similar advantages and disadvantages.

The Committee carefully considered the trade offs between the predicted positive effects of taking the tax off capital as quickly as possible, the potential revenue impact, and the potential to create undesirable demands shifts prior to implementation. With respect to demand and purchasing shifts, Finance represented: “the extent of displacement which will actually occur is relatively limited, because of lead times, etc., that are involved often on major capital purchases”.

The Committee feels it is of utmost importance to maintain simplicity in the system for both the government and the business community, and to minimize delays of long term economic benefits. It concludes that the risk of demand shift did not justify the compliance, administrative and economic costs of implementing a scheme to ease transition for capital goods. Direct double taxation does not occur by the lack of transition rules on capital goods

since these goods are not purchased for resale. Rather indirect cascading occurs because of the defects in the current system.

In light of these deliberations, the Committee concurs with Finance's position not to propose transitional relief for capital goods purchased in 1990.

2. Inventory of Goods

The Technical Paper does not indicate whether a physical inventory has to be taken as of December 31, 1990 or when the FST rebate will be paid. The Committee recognizes concerns expressed by businesses about these uncertainties, regarding the taking of such an inventory and the timing of the proposed FST rebate.

Therefore, the Committees recommends:

- 78. That the Government allow as an option an actual physical stock taking within a reasonable period, perhaps 3 to 6 months, before or after the implementation date, with reliance on normal books and records (or previous year's averages) to estimate physical inventory as of December 31, 1990. In claiming rebates of federal sales tax in inventory, a business be allowed:**
 - (a) to reduce its net GST remittances for periods ending on or before April 30, 1991 by an aggregate amount not exceeding its federal sales tax rebate entitlement: and**
 - (b) after April 30, 1991, to claim a cash refund for the balance, if any, of the federal sales tax rebate, with interest on such amount to be paid on any amount not paid within 21 days from the date the rebate claim is received.**

To prevent over on any amount not paid within estimates of physical inventory, and thus rebate claims for tax that was never paid, reference to current average monthly inventory amounts could be required, and prosecution for penalties where evidence of fraud is established could be provided for.

The Committee also recognizes the tax content in goods is often not apparent at subsequent trade levels, and that retailers, in particular, may not know the federal sales tax content of their inventory. It understands the concerns expressed that the formulae provided may not adequately compensate businesses for the existing FST content in their inventories. However, because the Department of Finance has indicated to the Committee that the federal government lacks the constitutional authority to mandate tax extra-pricing, it is not appropriate to recommend that suppliers be required to identify the FST amount on invoices in 1990. Rather where actual tax amounts cannot be identified by the claimant, or where the claimant chooses to use a formula to estimate FST, the Committee encourages flexible approval of refunds or credits based on fair formulae, or FST estimates supported by logical and reasonable assumptions.

3. Real Property

The Committee concurs that the transitional measures proposed in the Technical Paper for non-commercial real property may lead to unfair and inconsistent results. It

acknowledges however that the thrust of the measures was to provide limited relief, while not introducing complex rules that pose difficult audit problems.

The Committee discussed at great length what kind of transitional rules should exist for construction in process as of the implementation date of the GST. The Committee discussed: whether to consider construction in process like any other inventory item or whether a simpler method should be used. For example, the Committee considered a rule whereby, if a construction project was 50% complete as of December 31, 1990, the FST system would apply until September, 1992, such that further purchases of materials would be subject to FST and the subsequent sale of the property would not be subject to GST. If a project was not 50% complete as of implementation date, then no rebate of FST content would be received and the subsequent sale of the project would be subject to GST.

However, it was felt that a 50% rule would disturb the markets in 1990, encouraging builders and developers to make as many units as possible meet the 50% completion requirement. Also, arbitrary distinctions are involved when a percentage of completion cutoff is used. Therefore, the Committee considered whether residential and commercial buildings should be treated as any other inventory item. The Committee's deliberations with respect to each follow.

(i) Residential Property

Recognizing that the main current of thought that should underlie the transitional provisions is that the application after 1991 on GST should not lead to double taxation, the Committee felt that three issues should be addressed with respect to non-commercial properties. First, the FST rebates should, as much as possible, flush out the FST component at January 1, 1991 of non-commercial properties. Second, the consumer who bears the GST should benefit from the FST rebate. Third, the rebate scheme should not be unduly complex and arbitrary, and, very importantly, should be susceptible of audit with reasonable ease.

Although the Technical Paper proposals address the last two issues, the Committee believes that they do not sufficiently address the first issue. For housing, the proposals are too strict, as they do not allow sufficient flexibility to builders and purchasers with regard to the time of closing. Moreover, the rebate percentages are arbitrary in that they make assumptions on the FST content which may prove to be inaccurate. For example, should a house be 100% complete on January 1, 1991, the purchaser is only entitled to a 75% rebate if there is transfer of title in January 1991. The provisions governing condominiums and rental apartment buildings have similar problems.

The Committee considered the merits of recommending that FST rebates be provided to purchasers of non-commercial properties on the basis of the percentage of completion of each building, as this would likely result in a more accurate rebate scheme. However, to comply with such a system, builders would be required to estimate the degree of completion of each building and earmark each building with its estimated FST component for the purpose of calculating refunds to purchasers. This approach would therefore be burdensome on builders and would undoubtedly be very difficult to audit after the fact. Thus, although

this approach could lead to defensible results, the Committee rejected it because of its inherent administrative and compliance difficulties.

The Committee also considered but rejected the suggestion of the Canadian Home Builders Association and the Urban Development Institute that condominiums purchased in 1989 (and a portion of 1990 in the case of the Urban Development Institute representation) should be exempt from GST on closing in 1991. The Committee believes it is not in the interest of the marketplace that some condominiums units closing in 1991 or 1992 be exempt and that others be taxable, as this would be distortionary, would lead to perceptions of unfairness, and be confusing.

Rather the Committee believes that the best approach to provide relief, without the institution of a complex and arbitrary system, is to provide rebates to builders on the basis of non-commercial construction in progress on December 31, 1990. This approach is fair as it leads to rebates that correspond to the FST paid on property on hand, as calculated on the basis of accounting records. This approach also avoids the need for the estimation of the degree of completion of each building. It is susceptible to audit since it relies on the inventory records of builders.

Although the approach may be argued to be deficient to the extent that builders do not pass on the rebates to the purchasers of the property, the Committee is confident, as the Department of Finance states, that market forces will be such that the savings will be passed on. Furthermore, the Committee believes this approach is the most objective and satisfactory as builders will be in a position to price their products on the basis that all taxes on input costs, whether FST or GST, will be flushed out. The approach also responds to the concerns in respect of renovators, townhouse projects, and inventories of units built "on spec".

It benefits the condominium builders because it enables them to price their product accurately, which the Technical Paper proposals do not do, and provides certainty to them that all FST will be removed from their inventory on December 31, 1990. Moreover, because the Committee proposes in Chapter 7 that a 5% rate also apply to sales of condominiums (which corresponds essentially to the average FST rate), the Committee is confident the availability to the builders of FST rebates will allow the condominium builders to be in a position where they can demonstrate to purchasers that the 1991 price, inclusive of GST, does not exceed the 1991 price inclusive of FST, that would otherwise have been demanded had it not been for the GST.

Therefore, the Committee recommends:

79. That registrants who on January 1, 1991 hold inventories of non-commercial properties (including unregistered condominiums, and properties subject to an agreement of purchase and sale) receive a rebate of federal sales tax, based on their work in progress records and the estimated federal sales tax content per square foot, allowable only against net GST remittances under the new system.

(ii) Commercial Property

The Committee believes it would not be appropriate to relieve completed commercial properties from the FST embedded in their cost structure because of the technical difficulties of calculating the refunds and the consequential audit problems. Moreover, the Committee believes that any additional cost embedded in commercial property leases because of the FST component would be minimal and does not justify the elaboration of complex rules.

Also, in the interest of maintaining consistency of treatment with completed buildings in use, the Committee believes FST rebates should not be given for commercial buildings in construction on January 1, 1991. The Committee again believes additional FST costs will be minimal and, if any, will be immaterial with regard to the prices of sales to customers or rents to tenants. The development of complex rules is therefore not justifiable.

4. Leases

The GST is to be imposed on the purchaser of taxable services, and will therefore arise as a consequence of the lease. Therefore, the Committee believes that the absence of GST grandfathering rules for leases straddling the implementation date should not be a significant factor in contracts where both the vendor and purchaser have taxable status. However, where either the vendor or the purchaser in a lease has exempt status, the imposition of GST could be inappropriate for either party.

Where FST-paid leased goods are being used by a leasee in making exempt supplies, the lease payments would be subject to GST but the purchaser would not be entitled to an input tax credit (or a recovery of) previously paid FST. Double taxation would therefore occur where the purchaser cannot recover a full input tax credit, such as in leases to financial institutions, to individuals and to providers of healthcare, educational and day-care services.

Therefore, the Committee concludes transitional relief should be provided in leases to non-registrants and on leases to registrants in the course of a non-commercial activity. However, as the lessor would have an added compliance burden if these types of leases were treated differently than leases to registrants in the course of commercial activities, the Committee believes the proposed rule should be applicable to all leases of goods entered into before January 1, 1991..

Therefore, the Committee recommends:

- 80. That the lease of goods that were subject to federal sales tax pursuant to a lease entered into before January 1, 1991, be treated as an exempt supply until December 31, 1993.**

This Chapter discusses certain other operational aspects represented to the Committee by witnesses to be of concern.

A) Partner and Employee Expenses

(i) Technical Paper Proposals

Although the Technical Paper is silent on the treatment of syndicates and joint ventures, it states GST collected on supplies made by a partnership will be reported at the partnership level. However, the partner will be able to recover the GST paid or payable directly on those purchases for which he or she is not reimbursed but is able to deduct for income tax purposes in calculating his or her partnership income. Refund claims for GST paid on partner's expenses will be filed at the same time as the partner's income tax return. The draft legislation clarifies corporate partners may claim input tax credits with respect to any partnership expenses on either a monthly or quarterly basis. In respect of vehicles, either the partner or the partnership, as the case may be, will be allowed to claim a credit based on the capital cost allowance as allowed for income tax purposes, to the extent that the vehicle is for use in a commercial activity of the partnership. Individual partners will file for this amount on their annual GST refund claim for partner expenses, and partnerships will claim the credit on the partnership's GST return for the reporting period that includes the fiscal year end of the partnership.

Since employees, such as commission salespeople, will not be considered to be carrying on a commercial activity, they will not be able to claim an input tax credit for the GST paid on employee expenses. However, officers and employees will be refunded the GST paid on those employment expenses which are also deductible for income tax purposes. Where the income tax deduction is a capital cost allowance in respect of the item, such as passenger vehicle or aircraft, the Technical Paper proposes the credit will be based on 9/109ths of the capital cost allowance deduction allowed for income tax purposes. The GST refund claim will be filed at the same time as the income tax return of the employee for the calendar year in which the expenses are incurred.

(ii) Witnesses' Representation

Several witnesses, including the Canadian Institute of Chartered Accountants ("CICA"), represented to alleviate cash flow concerns, partnerships (and joint ventures) should be given flexibility in filing returns. Although the partnership would purchase goods and services on a GST paid basis, they recommended each corporate partner should be allowed to report and remit GST on their proportionate share of taxable supplies, and claim their proportionate share of input credits.

The Independent Petroleum Association of Canada ("IPAC") represented GST should be levied at the operator level only with respect to joint venture operations. They also recommended all payments of ownership distribution, including override royalties, net profits and interests, should be specifically excluded from GST.

The Department of Finance ("Finance") has represented they did not allow individual partners to claim their input claim tax credits for simplicity. Although no specific rule is provided for joint ventures in either the Technical Paper or the Draft Legislation, Finance stated:

"The result of the variety of rules that we do have provides maximum flexibility for joint ventures. They can, in fact, structure the way in which they report for GST purposes, and virtually in any manner they want"...

Finance further represented there would not be a forced pro-rating amongst participants and the operator with respect to "net-profit interest type ventures". Rather:

"in most cases, the way they are structured, the operator will be accounting for tax and any funds that flow between the operator and the other partners would simply not be recognized for GST purposes... there is no further complications there whatsoever."

Further, in its testimony, Finance assured the Committee, it was addressing the "one or two minor wrinkles" it had been made aware of.

The Canadian Real Estate Association represented to the Committee that the Technical Paper proposal, allowing refunds of the GST paid to employees where the employment expense is also deductible for income tax purposes, is restrictive. The applicable paragraph in the *Income Tax Act*, paragraph 8(1)(f), limits allowable deductions of capital expenditures to certain automotive and aircraft costs. Therefore, agents who are considered employees will be denied input tax credit for such items as photocopiers, FAX machines and cellular telephones.

(iii) Committee's Conclusions and Recommendations

The Committee recognizes partnership agreements often provide that certain business expenses must be paid directly by the partners. For example, automobile expenses, interest and entertainment expenses are often paid by the partners rather than by the partnership. Although a rebate of the GST paid on business purchases will be claimable by the partners where the credit for these purchases would have been available if the partnership had incurred the expenses, the government has not announced the procedures which partners will have to follow to obtain the refund. All that is known is the refund will not be obtainable by non-corporate partners until they file their personal income tax return. Therefore, refund filing is on an annual basis, and the Committee sympathizes with the resulting cash flow concerns.

However, the Committee notes that the recommendation of the CICA with respect to corporate partners has been addressed in the Draft Legislation. It also recognizes that Finance's representations confirm positive resolution of the IPAC concerns. The Committee therefore commends the government on its attempt to address concerns. However, since the Committee desires not to have decisions as to business structure affected by tax laws (discussed in Chapter 2), the Committee concludes that individual partners should be given the same treatment as corporate partners for the purposes of GST credits. Therefore, the Committee recommends:

- 81. That individual partners be permitted to claim input tax credits with respect to partnership expenses on either a monthly or quarterly basis.**

The Committee also supports Finance's efforts to address specific joint venture issues and encourages flexibility with respect to the concerns.

The Committee concurs that the restrictions imposed by paragraph 8(1)(f) of the *Income Tax Act* relate to the acquisitions of capital assets. Although the agent may always lease such assets, and thereby be entitled to a deduction for income tax purposes, and consequently to input tax credits where the agent meets the other criteria of the paragraph, the Committee believes it would be appropriate to broaden the input tax credit entitlement. Employed agents, who acquire capital property to earn commissions, should be entitled to input tax credits for such acquisitions. However, the Committee believes the other limitations contained in paragraph 8(1)(l) of the *Income Tax Act* are reasonable, including that the total allowable deductions be limited to the amount of commission income, and that the agent is required by his contract of employment to pay his own expenses, is ordinarily required to carry on his duties of employment away from his employer's place of business, is remunerated by sales commissions and does not receive an allowance for travelling expenses not included in his income.

Therefore, the committee recommends:

- 82. That individuals, who in the course of their employment earn commission income and who meet all the conditions of application of paragraph 8(1)(f) of the *Income Tax Act*, be treated as independent agents for the purpose of their entitlement to input tax credits for taxes paid on the purchase of any property acquired to enable them to earn their commission income. The input tax credits should only be available to the extent that all expenditures or outlays in a given year do not exceed the commission income for the year.**

For completeness, an applicable Committee recommendation made in Chapter 2 is reproduced below. For a discussion of witnesses' representations and the Committee's deliberation with respect to the recommendation, the reader is referred to the input tax credit section of that Chapter.

As the Committee feels it is of utmost importance to make the GST system as simple as possible, the Committee recommends:

83. That full GST input tax credit be allowed for meal and entertainment expenses, and for passenger vehicles purchased or leased, including those purchased or leased by self-employed individuals, partners and persons meeting the criteria of paragraph 8(1)(f) of the *Income Tax Act*. If the Minister deems it advisable to make appropriate adjustments because of the personal consumption component, the changes should be made by amending the *Income Tax Act*. The Income Tax complications should not be added to the legislation implementing the Goods and Services Tax.

B) Bad Debt Relief

Registered vendors will be permitted to claim an input tax credit for the tax component of bad debts written off, where the debt arose from the supply to a person with whom the registrant is dealing at arm's length. A debt becomes bad when it is established to be uncollectible. GST will have to be remitted at the rate of 9/109 (i.e. 8.25%) of any part of the bad debt subsequently recovered by the registered vendor. Under the 7% rate proposed by the Committee the fraction applicable to bad debt recoveries will reduce to 7/107 (i.e. 6.54%). The Technical Paper makes no provision for an allowance to a registered vendor for doubtful debts.

The Society of Management Accountants of Canada ("Society") represented that bad debt offsets against GST remittance should be allowed in the month following the month the bad debt is written off. However, the Committee notes that the Draft Legislation allows the offset any time within four years after the end of the reporting period in which the bad debt is written off in the books of account. Therefore, as the desired result of the Society is achieved if a business is required (or opts) to file monthly, and if it writes off its bad debts on a monthly basis, the Committee makes no recommendation with respect to this matter.

C) Gambling, Lotteries and Pari-Mutuel Betting

Under the Technical Paper proposals, pari-mutuel betting, gambling and lotteries operated on a commercial basis will be subject to GST. The tax will apply on the total revenues received by the organizer, less provincial taxes paid and prizes or winnings paid to bettors. In other words, the tax will apply to the organizer's margin: gambling or lottery winnings will be tax free.

The basic argument for taxing wagering is that it is a recreational activity in competition with other recreational activities and, when carried on a commercial basis, it should be taxed as other such activities are. While sound in principle, in the Committee's view this argument does not justify extension of the GST to pari-mutuel betting and provincial lotteries. The federal government vacated these tax fields to the provinces long ago, and to apply GST to them now would amount to reversal of this long-standing position under the guise of tax reform.

(i) *Pari-mutuel betting*

The federal government eliminated taxation of pari-mutuel bets in 1948, leaving the field entirely to the provinces. As Racetracks of Canada noted in their submission to the

Committee, most provinces have taken full advantage of their rights ever since, taxing pari-mutuel wagering to the hilt. In 1988, provincial taxes amounted to 57% of racetrack commissions. In addition, the industry is subject to a 0.8% levy on wagering, the proceeds from which are used to compensate Agriculture Canada for racetrack supervision services. Together, provincial taxes plus the federal levy in 1988 amounted to 63% of racetracks' revenues from wagering, making horse racing one of the most heavily taxed industries in Canada.

Application of the GST to pari-mutuel betting as proposed in the Technical Paper would increase the racing industry's net tax liability by almost \$20 million, a sum that exceeds the net profits of racetracks by over 2.5 times. It is therefore impossible for the industry to absorb this tax increase.

At the same time, given the sensitivity of wagering to price changes, the tax cannot be passed on to racetrack patrons either. According to industry estimates, passing on the GST to bettors would increase the cost of betting by 5.4% and cause a 9-10% decline in wagering, leaving the racetrack industry worse off than if it absorbed the tax. The industry's predicament was succinctly captured by the Honourable Don Mazankowski, Minister of Agriculture, in a speech to the House of Commons on Bill C-7 (amendments to legislation governing pari-mutuel betting) earlier this year when he said that:

there is no leeway for future [racetrack] commission increases to meet any further rise in costs. The combined take-out by the tracks, provincial governments and the federal operations levy has reached its probable upper limit. In other words, even a small increase in the take-out is likely to have a very negative impact on total amounts wagered.⁽¹⁾

In short, a) the federal government withdrew from the taxation of pari-mutuel betting long ago; b) pari-mutuel betting is already very heavily taxed; and c) any additional tax burden could have an adverse impact on the racetrack industry and result in a decrease in overall tax revenues from that sector.

The Committee therefore recommends:

84. That the GST not apply to pari-mutuel betting.

It is important to note that exclusion of pari-mutuel betting from the GST does not imply that racetrack patrons will be free of the tax. GST will be payable on parking, admissions, programs, food and beverage purchases and other forms of consumption at racetracks. The industry estimates annual GST revenues from these sources at \$12-15 million.

(ii) Provincial Lotteries

The federal government vacated the lottery field to the provinces in 1979, pursuant to a federal-provincial agreement under which the provinces agreed to remit to Ottawa \$24 million annually, indexed to changes in the Consumer Price Index. Lottery receipts have been

a rapidly growing source of provincial revenues ever since. In fiscal year 1986/87, they accounted for \$1.2 billion of provincial revenues.

Typically a provincial lottery retains about 50% of gross receipts from ticket sales and pays the rest out in prizes. Under the Technical Paper proposals, provincial lotteries would be charged 9% GST on the lottery receipts that they retain.

In the Committee's view, in addition to effectively reneging on an agreement with the provinces, application of GST to lotteries is ill-advised for another reason as well. The margin to which the GST would apply exists only because provincial lottery corporations enjoy state protected monopoly status. If the lottery business were open to competition, these margins would be bidden away and there would therefore be no surplus to contribute to provincial coffers. In effect, therefore, the provincial lottery margins are a form of tax, and to apply GST to them would be tantamount to applying tax on tax.

Therefore, the Committee recommends:

85. That GST not apply to provincial lotteries.

D) Provincial Sales Taxes

The Technical Paper proposes the GST will be levied on the price exclusive of the provincial tax where a sale is subject to the general provincial sales tax as well as the GST. Accordingly, where a business purchase by a registrant is subject to provincial retail sales tax as well as GST, the input tax credit will be calculated on the purchase price exclusive of provincial sales tax. The Technical Paper states that the appropriate GST treatment of provincial product taxes, mark-ups and other similar levies, such as those on tobacco products, motive fuels and alcoholic beverages, is an issue which requires further discussion with the provinces. The Committee's deliberations and recommendations with respect to the input tax credit complications involving provincial sales taxes are discussed in Chapter 2.

E) Used Goods

(i) Technical Paper Proposals

The Technical Paper proposes that the sale of a used good in the course of a commercial activity by a registrant will be a taxable supply and where the sale is made to a registrant the normal input tax credit rules will apply.

Sales of used goods by private individuals who are not registrants will not be subject to tax. Although goods sold by such persons will not be subject to tax on sale, if the purchaser is a registrant, subject to the restriction described below, the purchaser will be entitled to claim a notional input tax credit in respect of GST originally paid when the used good was first purchased. The notional credit will be 9/109ths of the price paid by the registrant for used goods where the purchase was not subject to tax.

The exception to the general rule will apply in cases of appreciating used goods. Where a registrant buys an appreciating used good from a non registrant (i.e. an individual or exempt organization) no notional input tax credit will be allowed. An appreciating used good will be defined to include listed personal property as defined in paragraph 54(e) of the *Income Tax Act* such as coins, stamps, art and other collectibles as may be prescribed.

(ii) Witnesses' Representations

It was represented to the Committee by the Federation of Automobile Dealer Associations of Canada that the imposition of tax on sales of used cars by dealers (registrants) versus the absence of tax on sales by individuals would create a competitive distortion in the marketplace. Given the fact that dealers would qualify for a notional input tax credit when they purchased a used vehicle, the dealers would in fact only be charging tax on their margin (purchase price less sale price x 9%) and therefore no large price discrepancy should occur. However it was represented by the FADAC that the public would nevertheless be under the impression that the full price of a used car bought from a dealer would be taxable while a used car bought from a private seller would be exempt. Moreover, the FADAC represented that if they were to explicitly show the GST as applying only to their margin, they would be forced to disclose their margins. The FADAC recommended that all sales of used vehicles be taxed or, in the alternative, a flat tax be levied against the average mark up (margin) on a dealers' sale of a used car.

The Committee also heard a representation from the Canadian Association of Numismatic Dealers (CAND). It was represented to the Committee by the CAND that the Technical Paper's proposal to deny a registrant a notional input tax credit on the purchase from a non-registrant of appreciating used goods would seriously damage the business of many dealers of used appreciating goods. Items such as coins, stamps, art, and jewellery would be taxed when new, and then taxed again every time they were sold by a registrant. It was represented by the CAND that this tax cascading would be particularly harmful to the trade in collectibles as many such items turnover between dealers and collectors as frequently as once a year. It was further represented that the practical effect of such tax cascading would be to drive legitimate dealers out of business in favour of "vest pocket" dealers who would neither charge nor remit tax.

(iii) Committee's Conclusions and Recommendations

The Committee believes that the concerns of FADAC with respect to the public perception of explicit GST on used car sales by dealers and their concerns with respect to the disclosure of the dealers margins can be addressed adequately under the Technical Paper. The Technical Paper provides that it is open to all registrants, including used car dealers, to sell on a tax included basis. Under this option tax need not be disclosed in the final selling price of goods and dealers need not disclose their margins. The Committee believes special rules such as a flat tax on dealers' margins or a tax on private used car sales are therefore unnecessary and moreover inconsistent with the application of the GST to all other taxable goods and suppliers.

The Committee believes that the concerns of the CAND are valid, and is not convinced that used appreciating goods purchased by a registrant should be entirely denied the notional input tax credit as proposed in the Technical Paper. The Committee believes registrants selling used appreciating goods should be treated in a manner consistent with those selling other used goods, namely, on their value added. However, the Committee is concerned that in extending the notional input tax credit to appreciating used goods there is a potential for a tax loss to the government. For example, a coin purchased new for \$100 by an individual might have borne \$9.00 in tax and then be resold to a registrant, after appreciation, for \$1,000. The registrant would then be entitled to a notional input tax credit of \$90. (9% of \$1,000). Thus the notional input tax credit would exceed the tax actually paid on the coin. As long as the registrant eventually remitted at least \$90 tax on the sale of the coin there would be no problem, however, if he made a tax free sale such as an export sale there would be a net loss in revenue to the government. Moreover, an unscrupulous coin dealer could make zero-rated export sales of coins on which he had claimed a notional input tax credit and then arrange to have the same coins smuggled back to Canada and sold to his dealership. He would then claim the notional input tax credit again and repeat the process.

Accordingly, the Committee believes that notional input tax credits on used appreciating goods can only be claimed by dealers where they have remitted tax on the sale of such goods that is equal to or greater than the amount of the notional input tax credit claimed. This will require dealers to inventory their used appreciating goods to show exactly how much was paid for such goods when purchased from non-registrants and how much was received on the resale.

Given these safeguards, the Committee believes used appreciating goods should be eligible for notional input tax credits just as other used goods.

Therefore, the Committee recommends:

86. That a notional input tax credit be allowed to registrants for the purchase from non-registrants of used appreciating goods as defined in paragraph 54(e) of the *Income Tax Act*, such as coins, stamps, art and other collectibles, or as may be prescribed. The Committee further recommends that notional input tax credits be payable only upon the registrant establishing through sales documentation or other evidence satisfactory to Revenue Canada that the tax remitted by the registrant on the sale of the used appreciating good is equal to or greater than the notional input tax credit in respect of the same used appreciating good.

FOOTNOTE

- (¹) House of Commons, *Debates*, April 19, 1989, p.694

DISSENTING OPINION – LIBERAL PARTY

GOODS AND SERVICES TAX



House of Commons Standing Committee on Finance:

Liberal Minority Report

November 1989

GOODS AND SERVICES TAX

House of Commons Standing Committee on Finance:

Liberal Minority Report

November 1989

TABLE OF CONTENTS

	<u>Page</u>
1.0 INTRODUCTION AND LIBERAL RECOMMENDATION	1
2.0 REJECTING THE FINANCE COMMITTEE MAJORITY'S RECOMMENDATIONS	2
3.0 THE PROPOSED GST: WHY IT MUST BE SCRAPPED	2
3.1 The implementation of the GST would cause serious economic damage to Canada	2
3.2 The GST proposal is not revenue neutral	7
3.3 The GST proposal will be a nightmare for small business and will introduce unprece- dented complexity into the tax system	11
3.4 The GST proposal is regressive and will hurt low-income families and persons living on fixed incomes, including seniors and welfare recipients	12
3.5 The GST will not be visible	16
3.6 The government has failed to consider the long-term economic and social effects of the GST	19
3.6.1 The GST proposal would shift the tax burden from corporations to consumers ...	19
3.6.2 The GST proposal would shift the tax burden from manufactured goods to services	20
3.6.3 The GST would shift the tax burden from central Canada to other regions	20
3.6.4 The GST proposal would shift the tax burden from big business to small business	22
3.7 The GST would put further pressure on the budgets of provincial governments, forcing them to either raise taxes, cut services or run larger deficits	22

	<u>Page</u>
3.8 The GST proposal would damage several key sectors of the Canadian economy and society	25
4.0 THE FAILURE OF THE CONSERVATIVE GOVERNMENT TO UNDERTAKE REAL TAX REFORM	29
4.1 Conservative Record: Unfairness	29
4.2 The Conservative government has created a financial mess, necessitating a review of all government finances and sources of revenue	35
4.3 Canadians have not been adequately consulted on tax reform	37
5.0 RESPONSE TO THE GST PROPOSAL	38
5.1 Reforming the Manufacturers Sales Tax	38
5.2 Liberal Principles on Tax Reform	40
5.3 Suggested Alternatives to the GST	41
6.0 CONCLUSION	42
APPENDIX 1: MAJOR TAX INCREASES FOR INDIVIDUALS INTRODUCED BY THE CONSERVATIVE GOVERNMENT (1984-1989)	44

1.0 INTRODUCTION AND LIBERAL RECOMMENDATION

After weeks of hearings across Canada, and after carefully considering the views of Canadians expressed to the House of Commons Standing Committee on Finance, the Liberal Members of the Committee have concluded that the Goods and Services Tax ("GST") proposed by the government must not be implemented and that if it is implemented serious economic and social damage would result.

The desirability of reforming the 13^{1/2} percent sales tax applied to manufactured goods (the "Manufacturers Sales Tax") has long been recognized by the Liberal Party, as well as by many Canadians. However, the GST proposal presented to the people of Canada by the Minister of Finance in August 1989 is so fundamentally flawed, and creates such great economic danger for Canada, that it cannot be viewed as a satisfactory alternative.

The failure of the government to find an acceptable method of improving or replacing the Manufacturers Sales Tax underlines the need for genuine tax reform in Canada. The time has come for an overhaul of the tax system in Canada and a renewed commitment to fair taxation.

The need to reexamine, in consultation with other levels of government, our personal and corporate income taxes, as well as sales taxes and other forms of taxation, is long overdue. The failure of the Conservative government to engage in meaningful consultations on either the first or second phase of its so-called tax reform has resulted in the unworkable GST proposal that is before Canadians now.

The Liberal Members of the Finance Committee, therefore, make the following recommendation:

That the Conservative Goods and Services Tax proposal be withdrawn and that the federal government immediately begin consultations with Canadians and provincial governments on the creation of a fair and integrated reform of the entire tax system.

2.0 REJECTING THE FINANCE COMMITTEE MAJORITY'S RECOMMENDATIONS

It is the position of the Liberal Members of the Finance Committee that the Conservative Goods and Services Tax proposal is flawed and cannot be "patched up" in a way that would make it fair for Canadian taxpayers. The problems with the GST are so fundamental that the proposal cannot be made acceptable by lowering the rate or through modifications of the sort proposed by the Conservative majority.

The GST proposal, if implemented, would: create economic disruption; increase taxes on average families; introduce an unprecedented level of complexity into the tax system; impose further hardship on low-income Canadians; remain hidden from taxpayers; shift the tax burden in several important ways within Canadian society without the government fully understanding the long-term effects of these shifts; cause financial difficulties for provincial governments; and harm many sectors of the Canadian economy.

The GST proposal is fundamentally flawed and must be withdrawn.

3.0 THE PROPOSED GOODS AND SERVICES TAX: WHY IT MUST BE SCRAPPED

The proposed GST should be withdrawn for the following reasons:

3.1 The implementation of the GST would cause serious economic damage to Canada

The Finance Committee received several briefs indicating that if the government's GST proposal is implemented the economy would be subjected to serious disruptions in the form of higher inflation, higher unemployment and higher interest rates.

The impact which the GST will have on the economy hinges on three critical assumptions:

- i) that businesses would pass along to consumers the full benefit associated with the removal of the existing 13.5 percent Manufacturers Sales Tax before applying the 9 percent GST in 1991;

- ii) that workers would attempt to protect their real incomes from the inflationary impact of the GST by negotiating higher wages;
- iii) that the Bank of Canada would raise interest rates in response to the inflation caused by the GST in 1991.

The Consumers Association of Canada told the Finance Committee that it was unlikely that the removal of the existing 13.5 percent Manufacturers Sales Tax would be passed along to consumers and predicted that labour would seek wage settlements that would protect workers against inflation brought on by the GST:

"As we went through the exercise of metrification we saw that these savings were not passed on to consumers [by business], and we are already beginning to see that in labour negotiations people are trying to build in or wanting to build in the inflationary factor that will come from this particular implementation [of the GST]."
(31:61)

Nick Murray
National President of the Consumers Association
of Canada

The Liberal Members were impressed by evidence that business did not pass along to consumers the full savings when the Manufacturers Sales Tax was reduced from 12 percent to 9 percent by the Liberal government in 1978. Inflation increased by 0.5 percent in the year after the rate of the Manufacturers Sales Tax was reduced, rather than falling as the Finance Department had predicted.

In fact, the inflation rate for prices of durable goods increased from 4.8 percent for the twelve months before the rate reduction to 6.8 percent during the twelve months after the rate reduction. This previous experience suggests that it is unlikely that business would fully pass along to consumers the savings associated with the removal of the Manufacturers Sales Tax.

The Finance Committee also heard that Québec consumers are skeptical of the Conservative government's arguments that consumers will benefit from the removal of the Manufacturers Sales Tax:

"We are afraid that these savings will result in only a partial price reduction at

best, and perhaps in none at all. Some years ago, the Quebec government thought it could count on petroleum producers to pass on savings to consumers of the reduced gasoline taxes to which it had agreed. Although the decrease was significant, there was no price reduction at the pumps."

Confederation of National Trade Unions
Brief to the Finance Committee
page 13

As to the impact of the GST on wage demands, the Economic Council of Canada's analysis showed that the GST would cause real wages to fall in 1991 by 2.4 percent, a substantial drop in the standard of living of working Canadians. National labour leaders who will be responsible for leading their members into future contract negotiations were clear about what their strategy would be:

"We will be aggressive to try to maintain the standard of living and certainly the rise in the cost of living as it goes along. We are not going to accept the principle that the worker has to suffer from all of this [GST]." (59:12)

Shirley Carr
President of the Canadian Labour Congress

"When the Minister, Mr. Wilson, asks us to absorb the 2% or 3% increase in inflation resulting from his new sales tax, he is seriously deluding himself ... We want across-the-board protection against government-created inflation."

Gérald Larose, President
Confederation of National Trade Unions
le Devoir
October 11, 1989

Virtually all economic forecasts, except for that of the government, agree that the GST will raise inflation, raise unemployment and slow economic growth in 1991. The economic forecasts of several economic experts on the impact of the GST proposal on the economy are summarized in Table 1.

Table 1

THE IMPACT OF GOODS AND SERVICES TAX IN 1991

Forecaster	Real GDP (%)	CPI Rise (%)	Jobs	Interest rate
Department of Finance	+0.2	2.25	+35,000	-
DRI ¹	-0.2	2.7	-25,000	
Wood Gundy ²	-0.6	3.0	-75,000	+ 2%
Conference Board of Canada:				
Optimistic Case ³	-0.9	2.7	-64,000	
Realistic Case ⁴	-1.0	3.0	-71,000	+ 2%
U of T, Institute for Policy Analysis	-0.7	2.4	-75,000	
Economic Council of Canada: Case 1 ⁵	-0.6	2.7	-41,000	
Case 2 ⁶	-0.4	2.4	-41,000	

1. Data Resources Institute (DRI) projects that the GDP could drop by as much as 1 percent or by as little as 0.2 percent, depending on the Bank of Canada's monetary response.
2. Assumes a 1.1 percentage increase in wages. The Bank of Canada would then respond with a 2 percent increase in short-term interest rates.
3. The elimination of the MST is fully passed on to consumers. Workers do not demand higher wages. No change in interest rates.
4. Only 70 percent of the elimination of MST is passed on to consumers. Based on average wages increase of 1.3 percent in 1992. The Bank of Canada would then respond with a 2 percent increase in short-term interest rates.
5. Without the gains in economic efficiency which the government predicts.
6. Includes the economic efficiency gains predicted by the government.

The third key assumption in all of the economic models is the extent to which the Bank of Canada will adjust the interest rate in response to the economic turmoil the GST will create in 1991. Most of the experts rejected the government's contention that the GST would result in a one-time only increase in prices and that the Governor of the Bank of Canada would not raise interest rates.

In spite of slowing economic growth and increasing risk of recession, the Conservative government and the Bank of Canada have continued their high interest rate policy. The Liberal Members cannot understand how the Conservative Members of the Committee, who unanimously supported the Finance Committee's report earlier this year calling on the Bank of Canada to immediately lower interest rates by 2 percent, can support the GST proposal when the overwhelming majority of opinions among economic experts is that the GST will force interest rates up to even higher levels.

The Economic Council of Canada concluded that a GST rate of 9 percent is above what it called the:

"flash point, where the inflation created by the GST begins pumping inflation into the economy."

Economic Council of Canada
Brief to the Finance Committee
page 7

The Economic Council's research showed that interest rates would have to be increased by close to one additional percentage point in 1991 in order to limit the inflationary impact of the GST to 2.5 percent. The Economic Council's research revealed that the GST would swell the ranks of the unemployed by more than 40,000 in 1991.

Other economists predicted even more job losses. The Conference Board of Canada predicted that as many as 71,000 jobs could be lost in 1991 alone, while the University of Toronto's Institute of Policy Analysis predicts 75,000 job losses in 1991.

In contrast to the majority of economic opinion, the government's projections assume the best case: that business will pass along to consumers the benefit of removing the Manufacturers Sales Tax; that labour will not be able to negotiate higher wages in order to protect their real incomes; and that the Bank of Canada will completely ignore the inflation caused by the GST and will not raise interest rates. Most

witnesses and economic experts who appeared before the Finance Committee concluded that the government was understating the short-term economic problems which the GST would cause.

Although opinions vary, the majority of economic experts believe that the government's GST proposal would have a serious negative impact on the economy in the short term and that the GST could cause an economic downturn. This risk of recession appears to be growing because, after seven years of world-wide economic expansion, growth appears to be slowing. Imposing the GST at a time when the economy may be entering a period of reduced growth might be enough to push the economy into a full recession.

The Liberal Members recognize that there are no certainties in long-term economic forecasting. Any potential long-term benefits to Canada forecast by some analysts are too small, too uncertain and too far in the future to justify the major risk of the economic recession which the GST may cause.

3.2 The GST proposal is not revenue neutral

Tax reform should be a process whereby the tax system is improved by distributing the tax burden among taxpayers in a fairer way.

It has long been recognized that to use tax reform as a cover to raise taxes makes the process of tax reform more difficult than it otherwise would be, because rather than raising taxes for some and reducing taxes for others, everyone ends up paying more taxes. This lowers public support for tax reform and sows the seeds of a tax revolt. If revenue neutrality is not observed, then public acceptance and any benefits of tax reform are eliminated.

During the 1988 federal election campaign the government committed itself to respect this principle:

"The bottom line is that the sales tax will not be used to raise the revenues of the government of Canada."

Hon. Michael Wilson
Toronto Star, October 8, 1988

Having promised Canadians during the federal election that the GST would not increase taxes, less than one year after the election the Finance Minister produced the GST Technical Paper which on the very first page states as the first goal of the GST:

"The GST will contribute to the deficit reduction effort..."

GST Technical Paper
August, 1989
page 1

The Finance Minister cannot have it both ways; if the GST is revenue neutral, then it will not reduce the deficit. Canadians deserve a straight answer from the government as to whether the GST will reduce the deficit or not.

In addition to this reversal, the Finance Minister has since changed his definition of revenue neutrality. At the start of tax reform the Finance Minister promised that when the GST was implemented the 3 percent corporate income surtax and the "temporary" personal income surtax of 3 percent would be removed. But rather than announcing in the 1989 Budget that these surtaxes would be removed in 1991, the Finance Minister raised the general personal income surtax from 3 percent to 5 percent, taking another \$1 billion out of Canadians pockets. Furthermore, he announced that he had changed his mind and that these surtaxes would not be removed when the GST took effect. These "temporary" surtaxes have now become permanent.

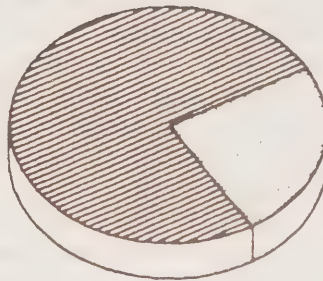
Revenue neutrality has also become a moving target. When the Finance Minister promised in his 1987 White Paper on Tax Reform that a new sales tax would be revenue neutral, that is that it would not raise more net revenue than the Manufacturers Sales Tax it was replacing, the rate of the Manufacturers Sales Tax was 12 percent. However, in the 1989 budget the rate of the Manufacturers Sales Tax was increased to 13^{1/2} percent, taking another \$2 billion out of Canadians pockets. Now the Finance Minister says that the GST will generate enough tax revenue to replace the 13^{1/2} percent Manufacturers Sales Tax, rather than the revenues that would have been generated if the Manufacturers Sales Tax had remained at 12 percent, as was originally promised. Revenue neutrality has become a moving target, with the target continually rising.

Furthermore, the government's GST proposal is demonstrably a tax-grab. The GST could raise more than \$28 billion in gross tax revenues, before all rebates and credits, in 1991. (See Figure 1 for a breakdown of the gross GST revenues of \$28 billion). The GST is intended to replace the

FIGURE 1

GST (Gross Revenue and Net Revenue) (\$28 Billion)

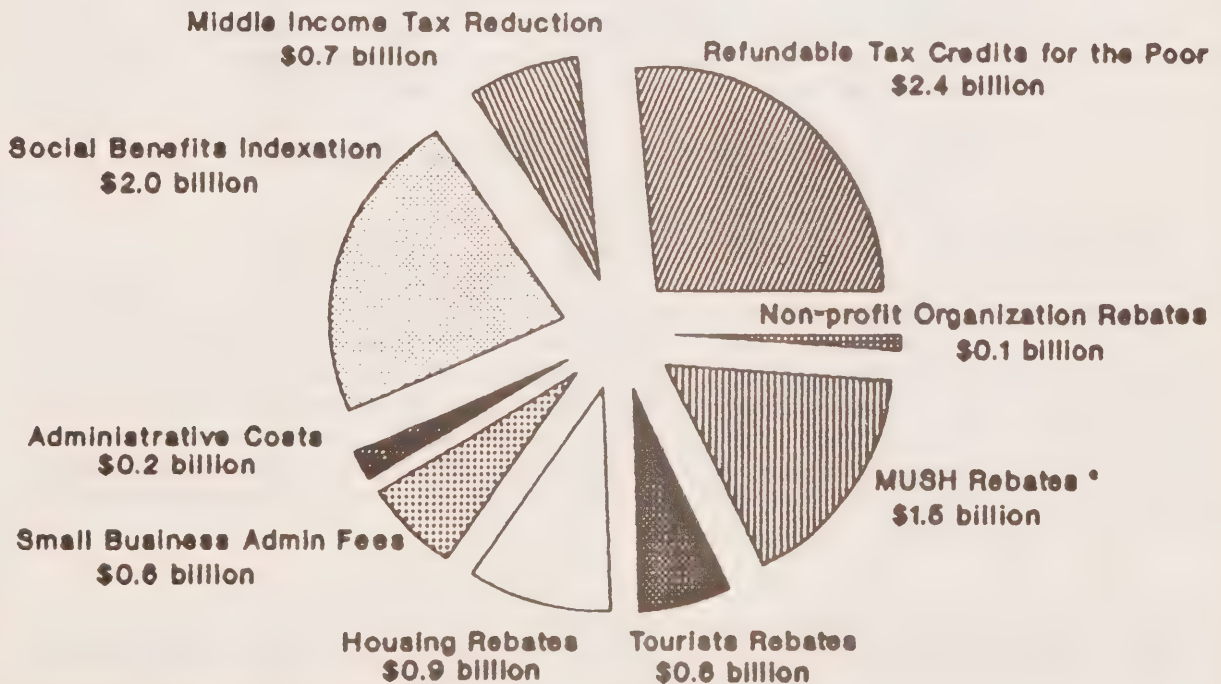
\$19 Billion
Net Revenue
76%



\$9 Billion
Credits, Rebates, etc.
24%

Source: GST Technical Paper, testimony
from officials appearing before the
Finance Committee

Breakdown of GST Credits, Rebates, etc. (fully implemented GST system)



* municipalities, universities, schools and hospitals

Manufacturers Sales Tax which would have generated about \$18.5 billion in 1991. The GST proposal represents a tax increase of approximately \$10 billion.

According to the government's figures, after deducting from the gross GST revenue housing rebates, tourist rebates, rebates for hospitals, schools, universities and colleges, municipalities, charities and non-profit organizations, and administration fees to small business, the GST proposal would still raise \$24 billion for the government, or \$5.5 billion more than the tax which it is replacing. Only after the remaining "offsets" (enhanced refundable tax credits, middle income tax rate reduction, the partial indexation of family allowances, the personal income tax system and old age security benefits, the partial indexation of transfers to the provinces and the government's administration costs of \$200 million) are taken into account does the government expect the net revenue of the GST to fall to approximately \$19 billion.

To illustrate what these numbers mean for an average Canadian family one need only look at the government's own analysis in the GST Technical Paper showing that an average middle-class family with two incomes, of \$27,000 and \$18,000 respectively, and two children, will pay \$629 more in tax each year when the GST is in place, even after receiving their refundable tax credits.

"Because of its unfortunate consequences on family budget in the short, medium and long terms, we consider the draft reform of the federal sales tax totally unacceptable."

Fédération des associations coopératives
d'économie familiales du Québec
Brief to the Finance Committee
page 1

Furthermore, since the partial indexing of transfer payments to the provinces, family allowances, and the personal income tax system will not take place until the end of the first full year of operation of the GST, the impact of the GST on family budgets in 1991 will be even worse than the government has so far admitted. Family budgets are in for a rude shock in 1991 if the GST is implemented.

Average Canadians expected tax reform, not tax increases. They feel betrayed and angry, and justifiably so.

3.3 The GST proposal will be a nightmare for small business and will introduce unprecedented complexity into the tax system

No other country in the world maintains two separate sales taxes at the retail level. The Conservative GST proposal to establish a two-tiered sales tax system at the retail level would leave Canada with the most complicated sales tax system in the world.

On page 4 of its 1987 White Paper on Tax Reform the government stated that:

"The tax system should be simpler to understand and comply with."

No one who appeared before the Finance Committee could state that the GST proposal would make the tax system simpler or easier to understand. Witness after witness testified that the GST would introduce an unprecedented level of complexity into the tax system that would cost small businesses and retailers billions of dollars in added expenses as they try to comply with the GST.

The Retail Council of Canada told the Finance Committee that the GST would cost small retailers as much as \$2 billion a year to hire additional staff and accountants to handle the increased paperwork associated with the GST. The Canadian Federation of Independent Business (CFIB) estimated that it would cost an average small business \$1,900 each or more than \$1.2 billion for the entire small business community to comply with the GST, including the cost of purchasing new and expensive electronic equipment.

The most disturbing aspect of the added compliance costs for business is that very small businesses will bear most of this burden. The CFIB demonstrated that small businesses with less than five employees would bear 72 percent of the total compliance costs (more than \$850 million a year). Small businesses would have to cope with a minimum of 4,000 additional federal tax collectors which would need to be hired to collect the GST. These added costs and red tape can only damage the competitiveness of Canadian small business.

The Manufacturers Sales Tax is levied against manufactured products and is paid predominantly by large firms. Most small businesses have never had to collect federal sales tax before. The GST proposal would force more than 1 million small businesses, who have never collected federal sales tax, to administer the GST for the government.

The Finance Committee heard that the nightmare for small business originates from the federal government's determination to impose the GST without the co-operation of the provincial governments. The most common complaint from small business associations appearing before the Finance Committee was that the GST proposal would thrust upon them a two-tiered sales tax system, whereby small businesses would have to cope with separate provincial retail sales taxes and the federal GST.

The federal GST and provincial sales taxes would each apply to a different set of products, each at a different rate of tax. Purchases of goods and services would be subject to any of four possible sales tax scenarios:

- i) federal GST only;
- ii) federal GST and provincial retail sales tax;
- iii) provincial retail sales tax only;
- iv) neither federal GST nor provincial sales tax.

If the customer then offers the retailer a discount coupon, even greater complexity arises, since the treatment of coupons for tax purposes is different in various provinces.

Most small businesses would find such a complicated tax system intolerable:

"When you talk to a small businessman about operating two totally unharmonized retail sales tax systems, you are talking about a nightmare." (33:14)

John Bulloch
President of the Canadian Federation of
Independent Business

There is no doubt that, at the same time as the government claims it is trying to make the tax system simpler, the GST proposal would introduce an unprecedented amount of complexity, violating one of the government's own stated objectives of tax reform.

3.4 The GST proposal is regressive and will hurt low-income families and persons living on fixed incomes, including seniors and welfare recipients

Sales taxes are, by their nature, regressive, simply because low-income Canadians spend a larger portion of their income on taxed goods and services than do high-income people.

Although refundable tax credits are intended to compensate poorer families for the increased federal sales tax which they will be paying in 1991, many witnesses appearing before the Finance Committee were convinced that these increased credits would not fully compensate low-income Canadians for the added cost of the GST:

"The tax on goods and services means hardship on seniors. It seems that low- and middle-income seniors will be pushed toward poverty. The proposed tax credits do not reassure them." (40:36)

Jean Woodsworth
President of the One Voice Seniors Network

Many social policy groups and economic experts disputed the government's claims that low-income Canadians would be better off in 1991 with the GST proposal:

"The goods and services tax is going to impose a heavier tax burden before credit on everybody, including low-income people. When we look at what happens, of course, after the credit is applied,...we find that even though the credit under the GST will be substantially enhanced because the GST is going to impose a much larger burden as well, when you net that out the figures are surprisingly similar [to the situation before sales tax reform]." (34:42)

Ken Battle
Director of the National Council of Welfare

The Finance Committee heard from the National Anti-Poverty Organization how the proposed system of refundable tax credits discriminates against large families living in poverty and against single people living on welfare:

"Families of four or more persons, who live under the poverty line, will not be entitled to the full tax credit."

"No single persons receiving social assistance (welfare) - with or without disabilities - would receive the full value of this special credit."

National Anti-Poverty Organization
Brief to the Finance Committee
pages 10 and 12

One of the most common objections to the GST proposal, an objection which the Finance Committee heard many times, is that the refundable tax credits and the thresholds at which Canadians would begin to lose these credits, are not fully indexed to inflation. As taxes and prices increase in the future, the amount of protection for low-income Canadians would fall.

Virtually all social groups were unanimous that the lack of full indexation of the refundable tax credits will make an already unfair GST system even more unfair over time:

"The shrinking sales tax credit and its falling threshold will weaken its capacity to protect low-income Canadians from the GST in future. In effect, their federal sales tax burden will grow heavier with each passing year because the sales tax credit will offset less of the GST. The sales tax credit also will be targetted further and further below the poverty line, thus leaving more and more working poor and modest-income families with little or no protection from the sales tax."

National Council on Welfare
Brief to the Finance Committee
page 19

The Finance Committee heard from the National Council on Welfare that within five years, 700,000 poor families would be cut off from receiving any refundable tax credits because of the lack of full indexation. Within ten years, over 1 million Canadian families who need protection would lose their tax credits.

Statistics provided by the National Council on Welfare demonstrated how inflation also would eat away at the value of the credits over time. Within five years the maximum credit for a couple with two children would fall from \$750 to \$644 in 1991 dollars, taking an additional \$700 million out of the pockets of poor families within five years.

In response to these concerns the Finance Minister has replied that the protection for low-income Canadians does not need to be fully indexed to inflation because the government, if necessary, would adjust the credits and the thresholds to protect the poor.

The Liberal Members of the Finance Committee simply cannot believe this assurance. If the government really intended to fully protect the poor from inflation by adjusting the credits and the thresholds, then there is no reason not to fully index the protection for the poor in the first place, unless of course the Conservative government intends to shift even more of the GST burden onto low-income Canadians in the future. The Liberal Members cannot support this Conservative attempt to increase taxes on the poor.

The Finance Committee also heard that the entire concept of aiding the poor through a refundable tax credit is a bureaucratic and ineffective approach to providing relief to low-income Canadians. It assumes that low-income Canadians will take their GST tax credit cheque, which they would receive every three months, and use it to offset the additional cost of the GST on their purchases until they receive their next cheque.

"I think that it is very very difficult for people who earn enough money monthly that they can bank some of it to understand the conditions for people who cannot put money aside... [The refundable tax credit] does not relate to the day to day cost of living that those folks have. It is a completely middle-class idea." (76:51)

Reverend Susan Eagle
United Church of Canada

The government's proposal to provide enhanced refundable tax credits to low-income Canadians also assumes that all low-income families and individuals are capable of completing income tax forms in 1990 and that they have a permanent mailing address where their refundable tax credit can be mailed. Since many poor and illiterate individuals often have to forego filing a tax return or have no permanent address, they will not receive any refundable tax credits and will have no protection at all from the GST. Responding to a Conservative Member's assertion that these Canadians choose not to fill out their income tax forms and, therefore, it is their own fault if they do not receive any credits, one witness responded:

"Those people are not refusing to fill out forms. I work with them every day. They are people who do not know about the forms. In

some cases they cannot read or write, and in some cases they are very frightened about filling out forms. They do not understand the process. They do not understand the system. They are very often in a transient lifestyle and to simply dismiss them by saying they refuse to fill out forms is not fair to them." (76:46)

Reverend Susan Eagle
United Church of Canada

The Finance Committee also heard how the GST would be made even more regressive if the government accepted the advice of several witnesses that necessities, such as basic groceries, should be taxed. The Canadian Council of Grocery Distributors (CCGD) told the Finance Committee that if the GST applied to basic groceries, food prices could jump by as much as 13 percent in 1991. Since poor families spend a far larger proportion of their incomes on food than do wealthy families (22 percent versus 12 percent according to the CCGD), taxing food would hit low-income families especially hard.

The Liberal Members of the Finance Committee cannot support taxing basic groceries. Furthermore, the Liberal Members have concluded that the entire GST proposal and its system of refundable tax credits is regressive, placing an unfair and unacceptable tax burden on low- and middle-income families.

3.5 The GST will not be visible

The Finance Committee heard from economic experts that the GST will be a hidden tax which Canadians will not see when they make a purchase.

Although the Government of Canada has the legal authority to require that the 9 percent GST be displayed as a separate item on sales receipts, the government intends to make display of the GST voluntary for businesses. Consumers have no assurance that they will be able to clearly identify how much GST they are paying when they make a purchase.

At the outset of tax reform the government promised that the GST would be visible to consumers,

"Sales tax reform will eliminate the hidden tax in the prices consumers pay."

Hon. Michael Wilson
House of Commons
June 18, 1987

Taxpayers have a right to know how much tax they are paying and to whom their taxes are being paid. The great danger of making the GST a hidden tax is that it would be much easier for the government to raise the rate in the future.

Several witnesses expressed the fear that there was nothing to prevent the government from raising the GST rate higher and higher if and when it is put in place. Given that, over the last five years, the government has increased the Manufacturers Sales Tax on four separate occasions from 9 percent to 13^{1/2} percent, Canadians are understandably skeptical that the GST rate will not be increased if the GST is put in place.

The experience of other countries with a GST also leads Canadians to be skeptical that the rate will not increase once the GST is in place. Most countries which have introduced a GST or some similar value-added tax have found it difficult to resist raising the rate once the tax is in place.

Table 2 lists 44 countries which had instituted a similar tax prior to 1988. It shows that 25 countries of the 44 countries with such a tax, raised the rate of the tax after it was introduced.

Many witnesses appearing before the Finance Committee feared that the Conservative government would raise the rate of the GST soon after it went into effect. In fact, when asked point blank to give a commitment to Canadians that he would not raise the GST rate in the future the Finance Minister refused:

"I cannot give that guarantee, it is not possible." [translation]

Hon. Michael Wilson
La Presse, October 26, 1989

Table 2
Standard Value-Added Tax (VAT) Rates throughout the World

Country	VAT Rate Introduced or Proposed	VAT Rates at Introduction	On Jan 1, 1988
Argentina	Jan. 1975	16	18
Austria	Jan. 1973	8	20
Belgium	Jan. 1971	18	19
Bolivia	Oct. 1973	10	10
Brazil	Jan. 1967	15	17
Chile	Mar. 1975	20	16
Columbia	Jan. 1975	10	10
Costa Rica	Jan. 1975	10	8
Côte d'Ivoire	Jan. 1960	8	25
Denmark	July 1967	10	22
Dominican Rep.	Jan. 1983	6	6
Ecuador	July 1970	4	6
France	Jan. 1968	13.6	18.6
Germany, Fed. Rep.	Jan. 1968	10	14
Greece	Jan. 1987	18	18
Guatemala	Aug. 1983	7	7
Haiti	Nov. 1982	7	10
Honduras	Jan. 1976	3	5
Hungary	Jan. 1988	25	
Iceland	Jan. 1989	24	
Indonesia	Apr. 1985	10	10
Ireland	Nov. 1972	16.37	25
Israel	July 1976	8	15
Italy	Jan. 1973	12	18
Japan		3	
Korea	July 1977	10	10
Luxembourg	Jan. 1970	8	12
Madagascar	Jan. 1969	12	15
Mexico	Jan. 1980	10	15
Morocco	Apr. 1986	19	19
Netherlands	Jan. 1969	12	20
New Zealand	May 1986	10	12.5 (effective Mar. 1989)
Nicaragua	Jan. 1975	6	10
Niger	Jan. 1986	12	25
Norway	Jan. 1970	20	20
Panama	Mar. 1977	5	5
Peru	July 1976	20	18
Philippines	Jan. 1988	10	
Portugal	Jan. 1986	16	16
Senegal	Mar. 1961-80		20
Spain	Jan. 1986	12	12
Taiwan	Apr. 1986	11.1	23.46
Tunisia	July 1988	17	
Turkey	Jan. 1985	10	15
United Kingdom	Apr. 1973	10	15
Uruguay	Jan. 1968	14	21

Source: Alan Tait, Value-Added Tax: International Practice and Problems

Once again Canadians are being asked to trust this government. The Conservative legacy of unprecedented tax increases and broken promises gives Canadians little reason to believe that the GST would not be used to raise their taxes in the future.

Since it would be easier for the government to raise the GST rate in the future if Canadians were not aware of how much tax they were paying at the moment, it is imperative that the GST be visible. The Liberal Members cannot support a hidden tax.

3.6 The government has failed to consider the long-term economic and social effects of the GST

While the GST proposal would shift the tax burden within Canadian society in several important ways, the government has given no indication that it appreciates the long-term effects which these shifts could have on Canadian society. If the tax burden is distributed in a fairer way, most Canadians would be willing to endure the economic disruption caused by tax reform. However, the GST proposal would shift the tax burden in several disruptive ways that many Canadians find difficult to support, particularly as the government has shown little evidence that it appreciates the long-term effects of these shifts.

3.6.1 The GST proposal would shift the tax burden from corporations to consumers

Under the GST proposal, corporations would receive input tax credits for 100 percent of the GST they pay on all of their purchases. In this way the GST would remove the sales tax burden completely from corporations and pass it along to the final consumer.

At the beginning of tax reform the Finance Minister promised that corporations would pay a larger share of tax than they did previously and that individuals would pay less. However, Jim Frank, Chief Economist for the Conference Board of Canada, produced evidence that the GST would shift taxes from corporations to consumers in a significant way. He predicted that corporate profits would increase by \$600 million in 1991 and by \$4.9 billion in 1992, at a time when economic growth will be slowing, and while real disposable income of consumers is predicted to fall by \$7.3 billion in 1991 and by \$5.8 billion in 1992. These figures also suggest that the Manufacturers Sales Tax is currently being absorbed, at least partially, at the corporate level through reduced profits.

3.6.2 The GST proposal would shift the tax burden from manufactured goods to services

The GST would, for the first time, put a sales tax on services, the fastest growing segment of the Canadian economy. The Finance Committee heard from many labour-intensive service industries, such as tourism and food services, about the effects that the GST would have on their industries. As the service sector is the fastest growing part of the Canadian economy, the GST would put a new tax on that particular sector which is generating most of the new jobs in Canada. There has been no indication that the government understands the importance of this shift of the tax burden onto labour-intensive services or what this means for employment opportunities in the service sector.

3.6.3 The GST would shift the tax burden from central Canada to other regions

The Finance Committee received powerful evidence from the Atlantic Provinces Transportation Commission that the GST would discriminate against regions outside central Canada in two ways:

1. That regional manufacturers would be put at a competitive disadvantage vis-à-vis manufacturers in central Canada, putting further strain on the east-west economic links between the regions of Canada:

"The GST will create the perception that goods from the Atlantic region are more costly, due to the application of the GST on higher transportation costs, than those of competitors located closer to the marketplace."

Atlantic Provinces Transportation Commission
Brief to the Finance Committee
page ii

2. That consumers in the regions will pay more GST on their purchases than consumers in central Canada:

"A tax on transportation will impact disproportionately on those regions of

Canada which are located farther from the major markets and sources of supply of central Canada."

Atlantic Provinces Transportation Commission
Brief to the Finance Committee
page i

The Finance Committee heard similar arguments from Canadians in Northern and Western Canada:

"The cost of living in the north now, in Whitehorse, is probably 25 percent higher than in the rest of Canada, and many of the other municipalities go up as high as 50 percent higher. So it is pretty simple arithmetic when you start putting 9 percent on 50 percent or 9 percent on 25 percent. The fact is that we in the North will pay very dearly for this increased tax." (47:20)

Dr. Don Branigan
Mayor of Whitehorse, Yukon Territory

The government's Report of the Task Force on Tax Benefits for Northern and Isolated Areas describes how the current tax system ends up taxing northerners more than inhabitants of southern Canada, where the cost of living and wages are lower:

"A tax system applied uniformly on the basis of income alone imposes a greater burden in real terms on individuals living in regions with higher costs of living and higher wages."

Report of the Task Force on Tax Benefits for Northern and Isolated Areas
October, 1989
page 12

No other country in the world which has introduced a GST or a similar value-added tax has the vast distances or faces the regional economic challenges which Canada does. While geographically-small countries may believe that a GST is an appropriate way of raising taxes in their countries, where regional disparities are not significant and transportation costs are not great, a large country like Canada has vastly different needs. The regional implications of the GST for a country of Canada's vast size are serious.

The evidence which the Finance Committee heard made it clear that the GST will penalize the regions for being located farther away from the large consumer markets and manufacturing centres in central Canada. In a country where transportation is such an important cost of doing business, applying the GST to the retail price of taxable items, which includes the cost of transporting the item to its final destination, will result in a major shift in the tax burden onto the consumers in the regions.

In spite of all of the evidence that the GST will contribute to even greater regional disparities within Canada, there is no indication from either the government or the Conservative Members of the Finance Committee that they either understand this shift or care about it. There is no government response to the regional unfairness which the GST will cause. The Liberal Members cannot support a tax which contributes to greater regional disparity.

3.6.4 The GST proposal would shift the tax burden from big business to small business

Most of the Manufacturers Sales Tax is currently collected by 75,000 manufacturing companies. Under the GST proposal, over 1 million small businesses, from wholesalers through to small retailers, would have to collect and comply with the GST. Experience in Great Britain showed that compliance costs with the GST, measured as a percentage of sales, are 30 times greater for a small business than for a large firm. Shifting the tax burden onto small businesses would damage this sector, which has been the engine of growth in the Canadian economy.

These important shifts in tax burden from one group in society to another will have dramatic long-term economic and social effects. The government has not given any indication that it either understands the implications that these shifts will have on society or that it considers these shifts to be desirable. By focussing entirely on macroeconomic aspects of the GST the government has ignored many of its ramifications.

3.7 The GST would put further pressure on the budgets of provincial governments, forcing them to either raise taxes, cut services or run larger deficits

The GST proposal represents an attempt by the federal government to push its deficit problem onto the provincial governments. Every provincial Premier has publicly opposed the GST.

A Conference Board of Canada study commissioned by the provincial governments indicated that during the first three years of operation the GST could reduce provincial tax revenues by up to \$6.9 billion. Provinces would be faced with three alternatives:

1. recovering these lost revenues through additional tax increases of their own; or
2. reducing services to the public; or
3. running larger provincial deficits (or smaller surpluses).

Canadians could face the double burden of higher provincial taxes on top of the federal GST. A report prepared by the provinces on the fiscal effects of the GST summarized the impact it could have on the provinces:

"In addition to needlessly threatening the economic situation in the short term, the federal GST would seriously jeopardize the provinces' financial position, already made difficult because of the federal government's policy of progressive financial withdrawal from health care, post-secondary education and regional economic development. The economic impact of the GST could thus be worse if provincial governments had to adopt measures to restore their fiscal situation."

Report by the Provincial Governments on the Fiscal
Impact of the GST
November, 1989
page 17.

If the GST takes effect in 1991 consumers face combined federal-provincial rates of sales tax ranging from 9 percent in Alberta, where there is at present no provincial sales tax, to 21 percent in Newfoundland, where consumers would pay the 12 percent provincial retail sales tax on top of the 9 percent federal GST. (See Table 3 for a list of provincial retail sales tax rates in effect in November, 1989).

Worse yet, consumers face the prospect of even higher sales taxes if provincial governments are forced to raise their tax rates to recover lost revenues. In fact, provincial governments have already indicated that the GST would leave them with no choice but to raise provincial taxes:

"We will probably have to raise our provincial sales tax from 12 percent to 15 percent or more if the GST isn't

Table 3
Provincial Retail Sales Tax Rates
(As of November, 1989)

Province	Sales Tax (%)
Newfoundland	12
Prince Edward Island	10
Nova Scotia	10
New Brunswick	11
Quebec	9
Ontario	8
Manitoba	7
Saskatchewan	7
Alberta	-
British Columbia	6
Yukon Territory	-
Northwest Territories	-

withdrawn...Either that or we will have to increase our provincial income tax rate, which is now 62 percent of the federal rate, to 75 or 80 percent."

Hon. Huber Kitchen
 Finance Minister of Newfoundland
 The Globe and Mail,
 October 18, 1989

Understanding that provincial co-operation is critical to any successful reform of the sales tax system, Finance Committee Members were shocked to learn that the federal government never actually put any specific sales tax proposal on the negotiating table with the provinces. Provincial governments were never asked whether they would join a unified national sales tax system before the federal government broke off negotiations in April, 1989:

"We were told, and we accepted the government's word, that they were negotiating for two years. We have only uncovered from travelling across Canada and talking to people who were in those hearings that there was nothing on the table; that most of the meetings had been technical in scope while federal officials learned about implementing retail sales taxes. There were no negotiations." (33:18)

John Bulloch
President of the Canadian Federation of Independent
Business

The government's haste to meet its self-imposed deadline to have the GST in place by 1991 has led to major flaws in the GST proposal. Mr. Bulloch makes this point:

If the federal government were really serious about a unified system, they would not have made all the stupid mistakes they have made." (33:18)

John Bulloch
President of the Canadian Federation of Independent
Business

The failure of the federal government to obtain provincial cooperation has doomed the GST to failure. The losers will be all Canadians.

3.8 The GST proposal would damage several key sectors of the Canadian economy and society

The GST will have a dramatic impact on numerous segments of Canadian society and the economy. To list all of those groups who told the Finance Committee about the particular hardships that the GST would cause would be impossible because of the sheer number of witnesses. However, the following comments provide a representative sample of the concerns expressed to the Finance Committee during the hearings.

The Tourism Industry Association of Canada told the Finance Committee in its brief that:

"A GST of 9 percent will be devastating for our labour intensive industry. By 1992 Canada will lose over \$1 billion per year in tourism revenue as a direct result of the 9 percent tax."

Tourism Industry Association of Canada
Brief to the Finance Committee, page 1

The tourism industry's problems will be felt particularly heavily in Western Canada and Atlantic Canada, where tourism is a growth industry and tourist dollars are an important source of income.

In Vancouver, Members of the Finance Committee heard that the drastic impact which the GST would have on the entire service sector of the economy would have a disproportionate effect on employment opportunities for women:

"Calculating the proportion of women's jobs held and what we feel is the cost of each job, we estimate that 100,000 jobs in services alone will be eliminated." (48:57)

Dr. Marjorie Cohen
Co-Chair of the Taxation Committee of the National
Action Committee on the Status of Women

The Canadian Home Builders' Association told the Finance Committee that the GST proposal would raise the price of a typical new house in Canada in every city right across Canada, reducing the demand for new construction. Price increases for new houses would range from \$1,900 in Halifax, \$2,200 in Montreal, \$2,300 in Edmonton, \$4,700 in Vancouver, to \$9,200 in Toronto.

"With price increases in these ranges, the affordability of home purchase, contrary to the Minister of Finance's commitment, will be negatively affected by sales tax reform."

Canadian Homebuilders Association
Brief to the Finance Committee
page v

The Finance Committee also heard that the GST proposal would raise monthly rents by \$40 to \$60 and cut the supply of desperately-needed new rental units:

"The affordability of all rental housing (both existing and new) provided by the private sector will also be negatively affected by the proposal to exempt residential rents from the GST."

Canadian Homebuilders Association
Brief to the Finance Committee
page vi

In addition to the alarming fact that fewer Canadians would be able to purchase a new house or find affordable rental accomodation, the impact of the GST on the construction industry would be severe.

The Federation of Canadian Municipalities expressed strong reservations about the Finance Minister's assurances that the GST would not cause any hardship for individual municipalities:

"How can the Minister ensure that the reform of the federal sales tax system imposes no greater tax burden than before reform, when in fact that tax burden cannot be calculated with any degree of accuracy?"

Canadian Federation of Municipalities
Brief to the Finance Committee
page 3

The Sports Federation of Canada expressed concern about what applying the GST to minor hockey registrations and other athletic activities would do to amateur sports in small communities across Canada:

"The application of the GST, in its current form, could have devastating effects on the activities of amateur sport."

Sports Federation of Canada
Brief to the Finance Committee
page 10

The Finance Committee heard how the GST proposal would devastate the publishing industry and further contradict the government's stated goal of eradicating illiteracy in Canada:

"The impact of this tax on education and on the government's own program to combat illiteracy will be negative in the extreme. For a government that believes in universal free education and that promises to combat and eliminate illiteracy, it is a sad irony that it will now put a tax on reading, on books, on magazines, on newspapers, on the essential building blocks of these programs." (42:39)

Mr. Dan Mozersky
Don't Tax Reading Coalition

The Finance Committee heard from representatives of the arts communities about their concern that the GST would put great strain on the arts and cultural communities in Canada, forcing many groups to seek more government funding to continue operating:

"What we look for is that the work done until now will not be jeopardized by a tax that will severely handicap organizations which have done everything they can - within the cultural role served by non-profit organizations - to go beyond a reliance on government subsidies." (64:37)

Joyce Zemans
Director of the Canada Council

The Finance Committee heard of the difficulties that the GST would cause farmers:

"I think it is fair to say that organizing your line of credit at a bank is for many, many farmers a very touchy and tight situation, and there is no question that adding a 9 percent requirement to that each spring is going to be felt by many farmers. It is going to be a big factor in trying to line up their line of credit." (74:9)

Brigid Pyke
Canadian Federation of Agriculture

The Canadian Independent Adjusters Association told the Committee how the flawed design of the GST would decimate its part of the insurance industry:

"I think that as many as half our members would virtually be out of business." (68:28)

Michael Lowthian
Canadian Adjusters Association

All in all, the GST will cause severe hardship in many industries, particularly the labour-intensive service sector which employs a disproportionate number of women. The GST would make housing less affordable and put further strain on municipalities, universities and colleges, schools, hospitals and many non-profit and charitable organizations that are already under financial duress.

Canadians from all regions of Canada working in different industries and representing diverse social interests are united in their opposition to the GST.

4.0 THE FAILURE OF THE CONSERVATIVE GOVERNMENT TO UNDERTAKE REAL TAX REFORM

4.1 Conservative Record: Unfairness

Since the Conservative government came to power in September 1984, individual Canadians have been subjected to an unprecedented number of tax increases. A list of these tax increases is included in Appendix 1.

Several studies have been completed recently on the fairness of these tax increases:

1. The Canadian Council on Social Development (CCSD)

A study prepared for the CCSD by Tristat Resources Ltd. analysed the impact of all of the tax increases since 1984 on ordinary families. When the CCSD study is combined with the impact of the GST, Figure 2 shows how much the Conservative government will have increased taxes on various Canadian families by 1991. Figure 2 reveals that Conservative tax increases since 1984 have been highest on low- and middle-income families, while taxes on wealthy Canadians have risen much less.

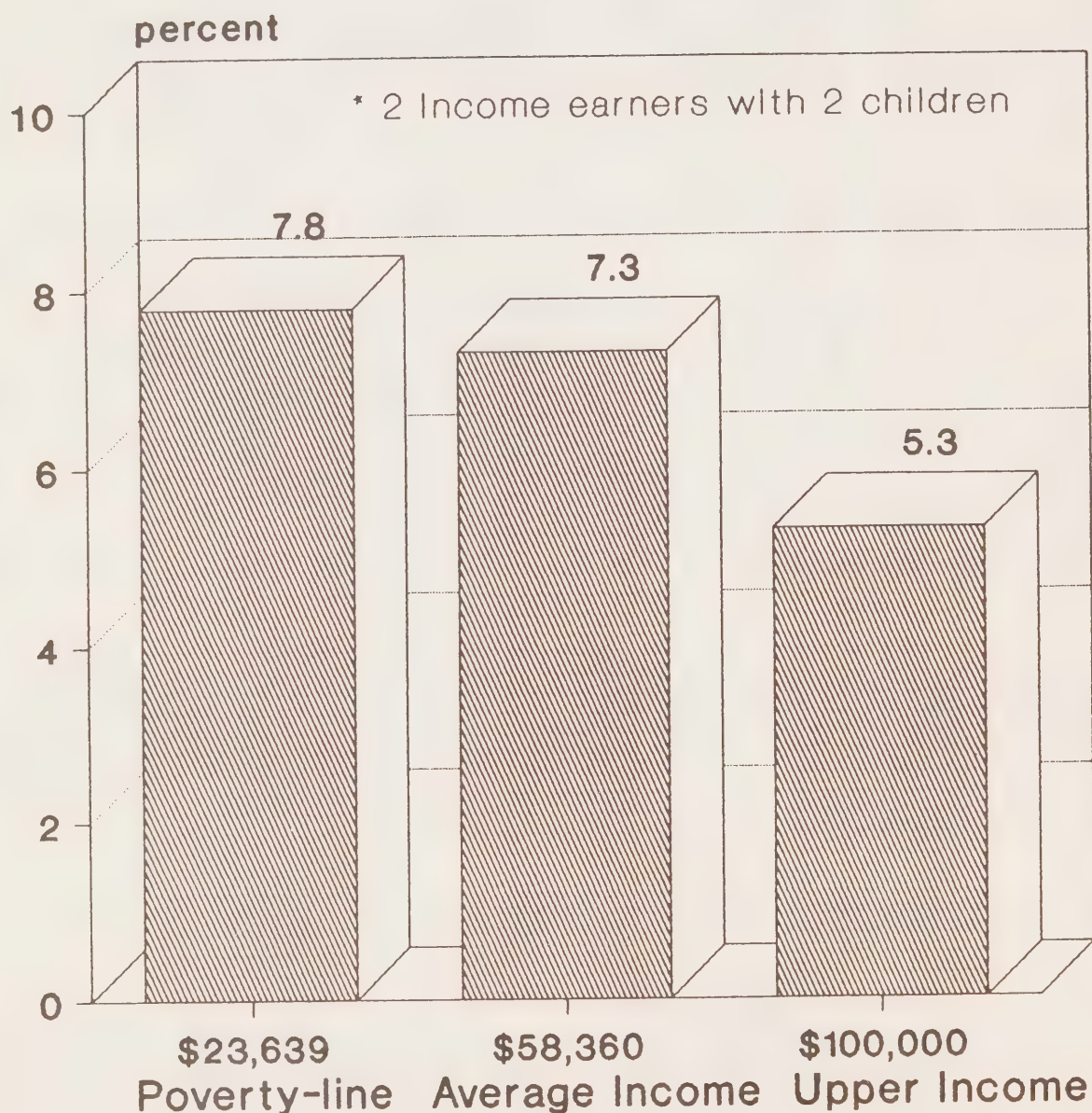
For a family with two children in which both parents work and earn a total of \$45,000, taxes will have increased by over \$3,400 in the seven years of Conservative government (from 1984 to 1991). The legacy of Conservative tax reform since 1984 is clear; families with low and modest incomes have been forced to pay far more of their income in increased taxes than have wealthy Canadians.

2. Institute for Research on Public Policy (IRPP)

Phase I of tax reform dealt with changes to income taxes. If one examines only the income tax changes since 1984 the unfairness of Conservative tax reform becomes even more striking. The study prepared by the IRPP revealed that the only groups who have benefitted from Conservative income tax reform have been the very poor and the very wealthy.

FIGURE 2

Tax Increase on a Typical Family * As a % of Family Income (1984-91) (Including GST)



Source: Tristat Resources Ltd and
GST Technical Paper.

The results of the IRPP study are summarized in Figure 3. The top-earning one percent of Canadians (incomes over \$114,000) is one of the only groups to actually pay lower income taxes after tax reform than before. Figure 3 reveals that while income taxes on wealthy Canadians have been reduced, low-income and middle-class Canadian families have had their income taxes raised dramatically. Phase I of tax reform has not been fair tax reform at all.

The author of the IRPP study suggests that Phase II of Conservative tax reform (sales tax reform) will only reinforce the unfairness created by Phase I:

"[The GST] is no different than the Tory tax measures of the last five years. Since that time, it has been the middle class that has carried the heaviest tax load and watched as their disposable income dropped."

Professor Allan Maslove
Carleton University School of Public Administration
Winnipeg Free Press
October 12, 1989

Central to the issue of tax fairness is how the tax burden is shared between individuals and corporations. Figure 4 shows how the distribution between personal income taxes, sales and excise taxes (consumption taxes) and corporate taxes has changed over the last thirty years.

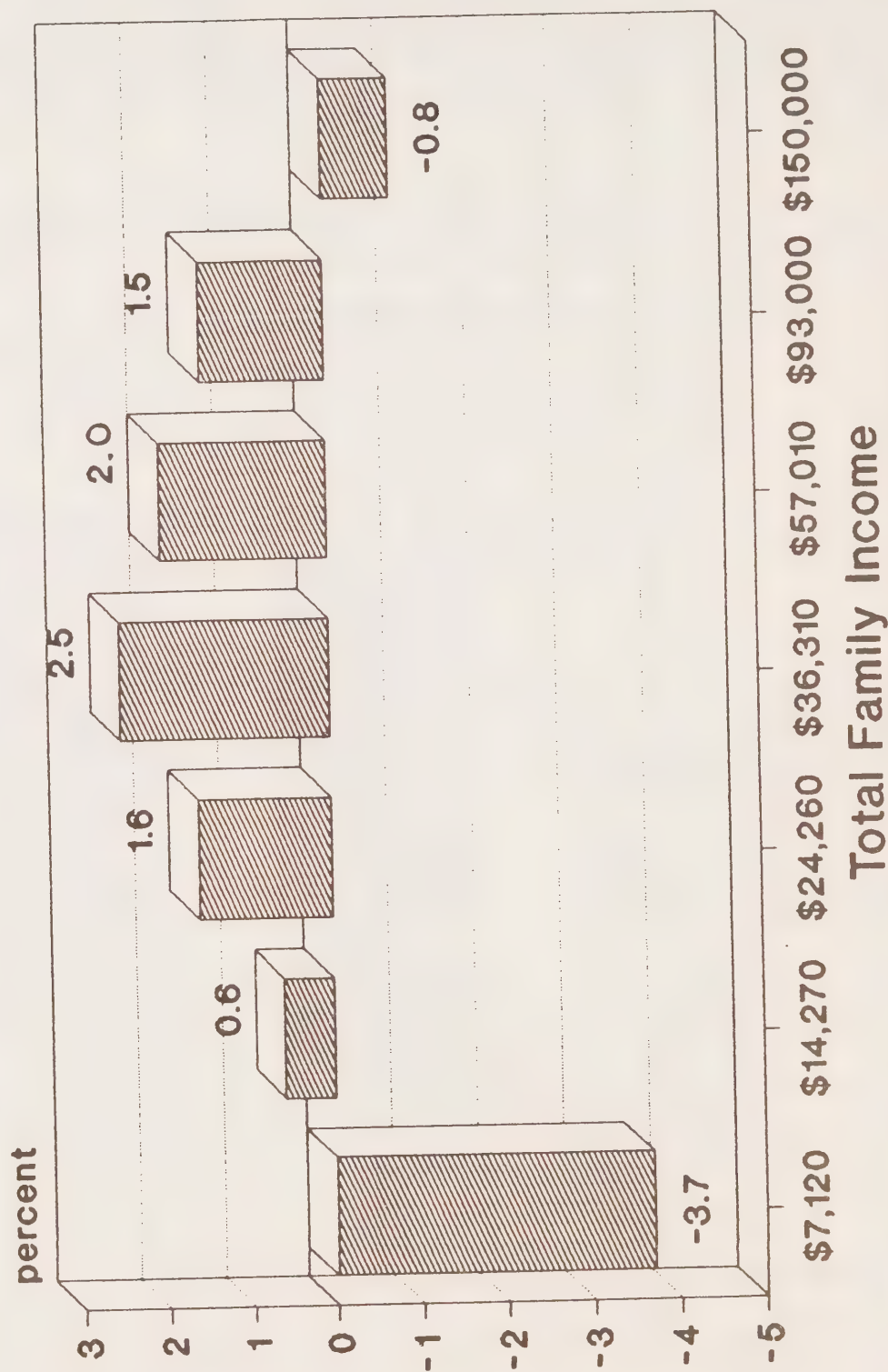
At the start of tax reform the government's commitment was to shift more of the tax burden to corporations from individuals:

"Tax reform will result in corporations making a significantly higher contribution to the total tax revenues collected by the federal government... These increases in corporate taxation will help to fund the personal income tax rate reductions."

White Paper on Tax Reform
June 18, 1987, pg. 50

Yet this has not been the record of the Mulroney government. In fact the exact opposite has been the case; corporations' share of taxes has fallen over the last five years and is expected to fall further when the GST is introduced.

Increase in Income Taxes as a % of Disposable Income (1984-88)



Source: Tax Reform in Canada; The Process and Impact, Allan Maslove
Institute for Research on Public Policy

FIGURE 3

As Figure 4 shows, when the Conservative government took power in 1984, corporate taxes accounted for 13.2 percent of total federal taxes. This year corporations' share of federal taxes will be 12.2 percent of federal revenues, a drop of 1 percent since 1984. When the GST is introduced in 1991, corporations' share of taxes will fall even further, even though corporate profits are predicted by the Conference Board of Canada to rise by \$600 million in 1991.

Statistics Canada figures reveal that in 1987 there were over 93,000 profitable corporations in Canada who did not pay any income tax. Over \$27 billion of corporate profits went untaxed in 1987, with roughly two-thirds of these untaxed profits (\$18 billion) being earned by financial institutions. Canadians must question whether the tax burden is being shared fairly between individuals and corporations.

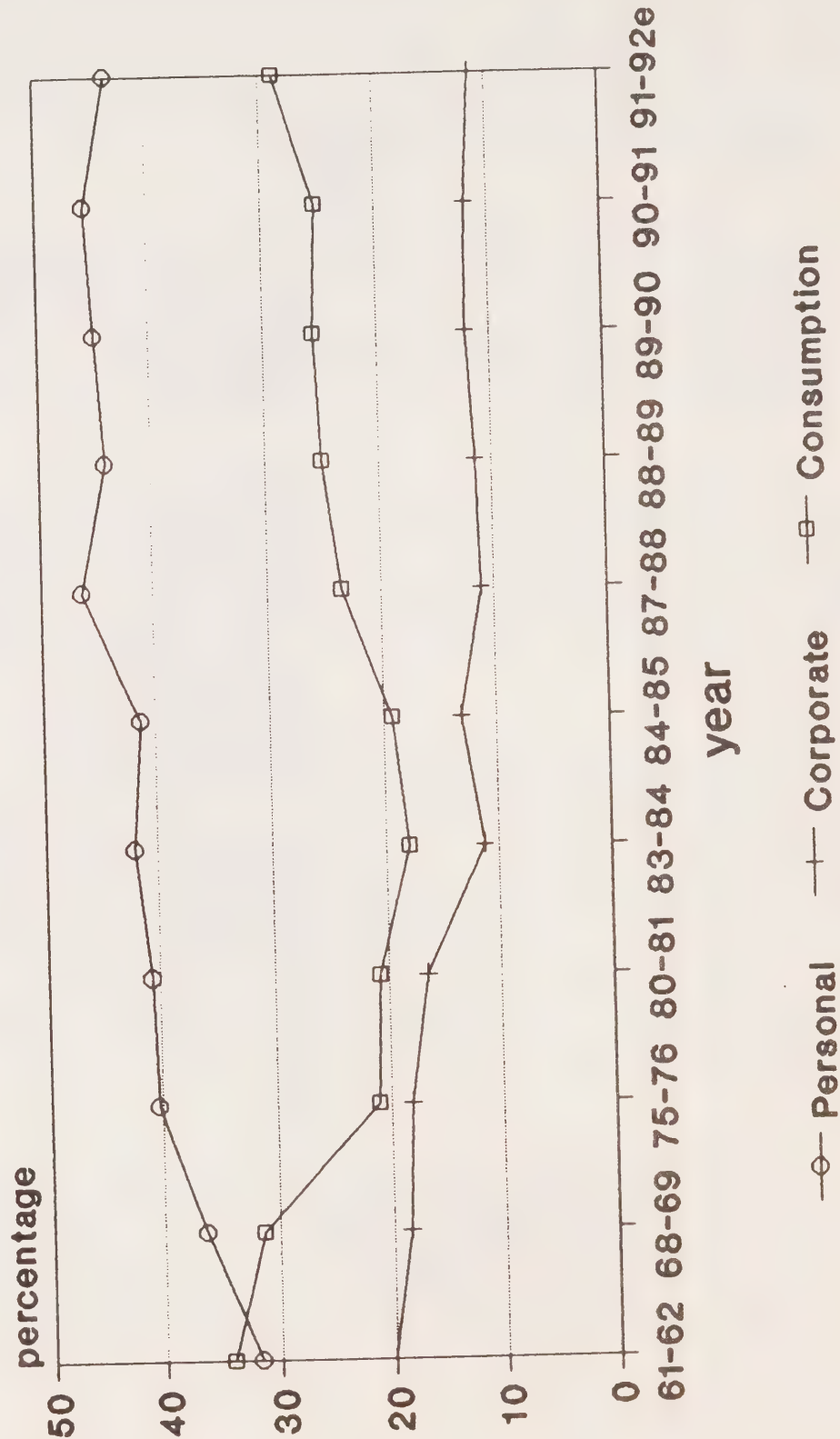
Figure 4 also shows that while personal income rates were reduced initially during tax reform, marginal tax rates have been pushed back up by the imposition of income surtaxes of 5 percent and 8 percent, so that today (fiscal year 1989-90) personal income taxes make up 45 percent of all federal tax revenue compared to 41 percent when the Conservatives came to power in 1984-85.

As regards consumption taxes, up to 1983-84 (the last full year of Liberal government) the reliance of the federal government on sales and excise taxes (consumption taxes) had been steadily decreasing to the point where consumption taxes accounted for less than 19 percent of federal tax revenue in 1984. After four increases in the rate of the Manufacturers Sales Tax in five years of Conservative government (from 9 percent in 1984 to 13^{1/2} percent today), sales and excise taxes will account for more than 25 percent of the government's revenues this year. As already described above, these increases in regressive sales taxes have meant increased hardship for low-income Canadians.

The heavier the individual tax burden is on average Canadians and their families, the more important it is that Canadians be convinced that the tax system is fair. There is no doubt that the tax system has been made more unfair over the last five years. The government's GST proposal would increase reliance on regressive sales taxes, introducing even more unfairness into the Canadian tax system.

FIGURE 4

Tax Revenues as a Percentage of Total Government Revenues



Source: 1989 Budget, Fiscal Plan

The Liberal Members of the Finance Committee believe Conservative tax reform to date has been unfair. It is time for a complete overhaul of the tax system, so that Canadians can have confidence that every individual and corporation is paying a fair share of tax.

4.2 The conservative government has created a financial mess, necessitating a review of all government finances and sources of revenue

In the five years since the Conservative government came to power, the public debt of the government of Canada has doubled. In the last two federal budgets presented by Finance Minister Wilson the government has increased the deficit. The record of the Conservative government has been one of economic mismanagement and incompetence.

Since 1984 (when the Mulroney government came to power), the public debt has risen from \$170 billion to \$351 billion. On an individual basis, the national debt has risen from roughly \$16,000 per Canadian taxpayer in September, 1984 to over \$25,000 per taxpayer in 1989 (See Figure 5). If this debt is financed at an average interest rate of 10 percent, each taxpayer in Canada must now pay \$2,500 a year in taxes just to pay the interest on the public debt.

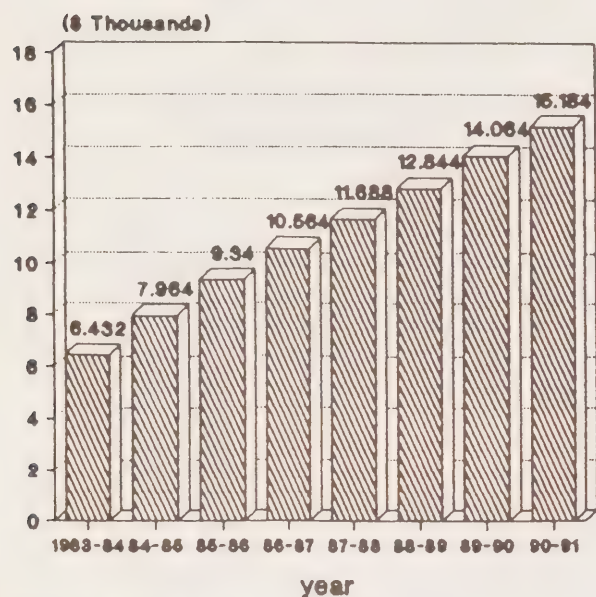
Much of the increase in the public debt is a result of the government's policy of high interest rates. Because more and more of this Conservative debt is financed at high interest rates, the interest charges on the debt now account for 28 percent of the federal government's expenditures.

The first step in getting control of the nation's finances would be for the government to accept the unanimous recommendation of the Finance Committee, made in the spring of 1989, to lower Canadian interest rates by two percent. This would reduce the deficit immediately by \$3.2 billion and by \$6.6 billion in 1992-93.

In spite of the Finance Minister's earlier promises that the GST would be "revenue-neutral", it is clear that the GST is a Conservative tax-grab. By raising the rate in the future and not having fully indexed the credits for low-income Canadians, the Conservative government would seek to reduce the deficit by increasing taxes on those Canadians least able to pay. The Liberal Members of the Finance Committee completely reject this attempt to push more of the burden of deficit reduction onto the poor and disadvantaged members of Canadian society.

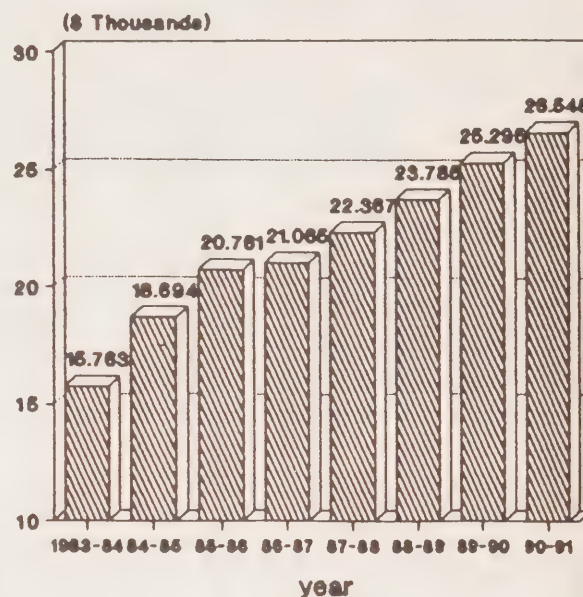
FIGURE 5

The Public Debt Per Canadian



Sources: Budget 1989, Fiscal Plan
1988 Canada Year Book,
Taxation Statistics (1985 - 1989)

The Public Debt Per Taxpayer



Sources: Budget 1989, Fiscal Plan
1988 Canada Year Book,
Taxation Statistics (1985 - 1989)

THE FEDERAL DEBT PER CANADIAN, PER TAXPAYER			
Year	Public Debt	Per Canadian ¹	Per Taxpayer ²
	(\$ billions)	(\$)	(\$)
1983-84	160.8	6,432	15,763
1984-85	199.1	7,964	18,694
1985-86	233.5	9,340	20,761
1986-87	264.1	10,564	21,065
1987-88	292.2	11,688	22,367
1988-89 ³	321.1	12,844	23,785
1989-90 ³	351.6	14,064	25,295
1990-91 ³	379.6	15,184	26,545

¹ Calculated by dividing Public Debt by Canadian Population. Population based on 1986 Census data of approximately 25 million Canadians.

² Calculated by dividing Public Debt by total number of Taxable Return. Source: Taxation Statistics, (1985 to 1989).

³ Based on a projected growth of taxpayers by 3 percent each year.

By refusing to give a solid commitment that they will not raise the rate in the future, the government is asking Canadians to give them a blank cheque. The Conservative government proposes to introduce the GST at a given rate, but will provide Canadians with no assurance that the rate will not be increased in the future. The Liberal Members of the Finance Committee are not prepared to give the government this blank cheque.

4.3 Canadians have not been adequately consulted on tax reform

Before any reform of the tax system is undertaken, Canadians must be consulted. They have not been adequately consulted on the GST proposal.

The Liberal Members deplore the government's moves to limit debate on the GST proposal. After ignoring its commitment, made in the 1989 Budget Speech, to present its GST proposal by June, the date for release of the GST Technical Paper was pushed back first to July and then to August. After these missed deadlines and delays, the government then proposed to give Canadians one month (until September 15, 1989) to prepare detailed comments for the Finance Committee on the GST proposal.

Finance Committee hearings were initially scheduled to conclude in a few weeks, after visiting only a few provinces and neither of the Territories. The Liberal Members of the Finance Committee fought to have the deadline for submitting intentions to file briefs to the Finance Committee extended by thirty days and to have the Committee travel to all the western provinces and the Territories, as well as all four of the Atlantic provinces. Although the Liberal Members would have liked to spend more time in the regions listening to Canadians' views on tax reform, it was clear that the government was not prepared to listen or to give Canadians adequate time to evaluate or comment on the GST proposal.

Having given Canadians virtually no time to read or understand a complicated GST proposal that took two years to produce, and giving Canadians barely one month to review the GST Technical Paper, the Conservative Members of the Finance Committee then proceeded to patronize and chastise Canadians during the public hearings for their alleged lack of understanding of the details of the proposed tax.

Now the government claims that, in order to combat what it terms public ignorance about the GST, it needs to spend \$9 million of taxpayers' money to educate them about the GST.

with it, leaves Canadians to question the government's priorities and to wonder if the government is doing all it can to reduce spending and to eliminate senseless waste.

Canadians will not tolerate being patronized or lied to by their government. Canadians are willing to do their share to solve the deficit problem, but they demand open, fiscally-responsible government. The government should allow Canadians enough time to comment on the GST proposal and should listen to taxpayers' views on tax reform, rather than spending Canadians' own money to convince them that they should pay higher taxes.

The Liberal Members believe that a fair and comprehensive reform of the tax system must begin with an open dialogue with Canadians. Canadians should be listened to, not lectured to, by their elected representatives.

5.0 RESPONSE TO THE GST PROPOSAL

5.1 Reforming the Manufacturers Sales Tax

The Liberal Members accept the evidence of several witnesses that the Manufacturers Sales Tax is in need of reform. However, Liberals cannot support the replacement of a flawed tax with an unacceptable tax. The Liberal Members cannot understand how the members of the Conservative majority on the Finance Committee can support the GST in the face of evidence from an overwhelming number of witnesses that the GST is an even worse tax than the Manufacturers Sales Tax.

The Finance Committee heard from witnesses about the economic distortions sometimes caused by the Manufacturers Sales Tax and how it may discriminate against domestically-produced goods thus hurting our exports. The Finance Committee also heard from witnesses that the Manufacturers Sales Tax may lower the competitiveness of Canadian exports by 1 percent, but that this is offset by billions of dollars of Canadian government subsidies to exporters.

Even if one accepts the argument that the Manufacturers Sales Tax disadvantages Canadian manufacturers, clearly the high value of the Canadian dollar and high interest rates are far more important determinants of international competitiveness than is the Manufacturers Sales Tax.

Canadian exporters currently face the competitive disadvantage of Canadian interest rates which are more than four percent higher than American interest rates and a Canadian dollar which has appreciated 13 percent since 1984 vis-à-vis the U.S. dollar (from 75 cents U.S. in 1984 to more than 85 cents U.S. in 1989). A one-percent disadvantage from the Manufacturers Sales Tax pales in comparison to the competitive disadvantages resulting from a high dollar and high interest rates.

The Liberal Members note with interest that at the same time as the Finance Minister has termed the Manufacturers Sales Tax a "silent killer of jobs" because it damages the competitiveness of Canadian exports, he has not hesitated to increase the rate. In five years the Finance Minister has raised the rate of the Manufacturers Sales Tax on four separate occasions from 9 percent in 1984 to 13^{1/2} percent today. The Finance Minister cannot have it both ways. If the Manufacturers Sales Tax is such a great evil that it desperately needs to be replaced by the GST, then how can he justify such increases in its rate?

The government has also argued that the Manufacturers Sales Tax is an administrative problem for the government, requiring 22,000 special provisions and administrative arrangements. The GST proposal would certainly eliminate the government's administrative problems, but only by imposing these administrative problems on over 1 million small businesses who will have to cope with over 4,000 new tax collectors at a cost of billions of dollars. The GST does not eliminate the administrative problem; it just privatizes it.

Liberals acknowledge that there is a need for the government to create a fair and reliable tax system that can generate the tax revenues needed to pay for the government services which Canadians have come to expect. However, a climate of desperation has taken over the government as it rushes to get its hands on this large money-machine, the Goods and Services Tax. The Liberal Members believe that Canadians should not be railroaded into accepting a flawed GST proposal; if the Manufacturers Sales Tax is to be reformed, we must insist that it is done correctly.

Liberals have always supported reform of the Manufacturers Sales Tax if it can be done in a fair and equitable way. However, while consultations on a fair and broad-based tax reform are undertaken, the Auditor-General has pointed out in his 1989 report that there are several immediate measures which the government could undertake to address some of the flaws of the Manufacturers Sales Tax in the short term.

Regarding the need to reform the Manufacturers Sales Tax, the Liberal Members found themselves in agreement with the statement made to the Finance Committee in Winnipeg by Mr. Bob Sparrow, Chairman of the Hotel Association of Canada:

"We have always agreed the existing tax system should be reformed, but do not reform it with another monstrosity that will plague Canadians for years to come. Take the time to get it right. This means going back to the drawing board with the provinces."
(57:24)

Bob Sparrow
Chairman of the Hotel Association of Canada

5.2 Liberal Principles on Tax Reform

Acknowledging that overall tax reform will be a complex and delicate process, it is important for Liberals to make clear the principles upon which tax reform should be based.

1. Fairness - A Tax System Based on the Ability to Pay

The Liberal Party has always stood for and defended a fair and progressive tax system. Reform must respect the principle that the burden of paying taxes should be based on the ability to pay.

2. Simplicity

Tax reform must be designed to make the tax system easier for Canadians to understand and thus ensure compliance.

Voluntary compliance has always been the foundation of our tax system. But for how long will Canadians continue to comply voluntarily with a system that is beyond comprehension, even by experts?

3. Integrated

Sales tax reform cannot be undertaken independent of income tax reform, corporate tax reform, social welfare reform or independently of the other levels of government. Canada is in need of an overall tax reform that encompasses all forms of taxation and all levels of government. An integrated tax reform must recognize that while there are several levels of government in Canada, they all look to the same person to pay their bills -- the taxpayer.

4. Visibility

Canadian taxpayers have a right to know what taxes they are paying. Any reform of the tax system should be designed to help Canadians understand exactly how much and to which level of government they are paying their taxes.

5. Revenue neutrality

Tax reform should not be a smoke-screen for raising taxes. Rather, tax reform should be undertaken with the goal of improving the tax system.

If a flawed tax can be replaced with a better tax, then it should be done in a way that does not raise the revenues of the government. In this way the new tax would be less likely to affect the economy adversely and Canadians would be better able to judge whether the new tax is working fairly and effectively.

5.3 Suggested Alternatives to the GST

The government's strategy going into the Finance Committee hearings was to try and convince Canadians that unless they could come up with a better idea, Canadians would be stuck with the government's 9 percent GST. Virtually every witness who came before the Committee to oppose the GST faced the same question from the government members, "Well if you are opposed to the GST, what would you suggest be done instead?" The government is asking Canadians to do what it, with all of the resources at its disposal, has failed to do; that is to come up with a fair and comprehensive tax reform plan.

Of course, the Conservatives are not truly interested in alternatives to the GST. What they are seeking is a strategic opportunity to attack someone else's proposal instead of defending their own. The premise of their argument is that the Manufacturers Sales Tax is so bad that it needs to be replaced immediately, in spite of widespread opposition from Canadians. This premise has not been proven and Canadians should not be diverted from the real issue, which is - Is the GST proposal a measurable improvement over the status quo?

Many witnesses who came before the Finance Committee as well as others commenting on the GST have suggested alternatives and Canadians should not be misled into believing that there is no option but to adopt the GST. However, in the

opinion of the Liberal Members, the most desirable alternative was that so succinctly suggested by Ontario Premier David Peterson:

"The alternative is Mr. Wilson can resign.
The alternative is that he could change his
fiscal policy."

Premier David Peterson
Financial Post
August 24, 1989

The Liberal Members believe that this is one recommendation that should be seriously considered if the government continues to proceed with the GST despite the opposition of Canadians.

6.0 CONCLUSION

After listening to Canadians and studying the GST proposal, the Liberal Members of the Finance Committee reiterate their recommendation:

That the Conservative Goods and Services Tax proposal be withdrawn and that the federal government immediately begin consultations with Canadians and provincial governments on the creation of a fair and integrated reform of the entire tax system.

The Liberal Members of the Finance Committee reject the position of the Conservative majority on the Committee, that the government's GST proposal can be repaired in a way that would be acceptable to Canadians and that it should be implemented.

The GST proposal would: create economic disruption; increase taxes on average families; introduce an unprecedented level of complexity into the tax system; impose further hardship on low-income Canadians; remain hidden from taxpayers; shift the tax burden in several important ways in Canadian society without the government fully understanding the long-term effects of these shifts; cause financial difficulties for provincial governments; and harm many sectors of the Canadian economy. The GST proposal is fundamentally flawed and must be withdrawn.

Liberals support fair tax reform. But what the Conservatives call tax reform has proven to be unfair. The

unfairness of the tax system and the financial mismanagement of the government has made necessary a complete review of the government's finances and sources of revenue.

Canadians have not been adequately consulted on tax reform and should be listened to carefully before fair tax reform proceeds. The government should undertake an open dialogue with Canadians to solicit their views on tax reform.

The Liberal Members believe that the Manufacturers Sales Tax is in need of reform, but that the government's GST proposal is unacceptable and should be scrapped. Any reform of the tax system must be designed to make the tax system more fair; to make the tax system simpler; to be integrated, taking into consideration all forms of taxation and the needs and practices of other levels of government; to make taxes visible to Canadians; and in a manner that is revenue neutral.

The GST proposal violates all of these basic Liberal principles of tax reform and therefore must be rejected.

APPENDIX 1

MAJOR TAX INCREASES FOR INDIVIDUALS INTRODUCED BY THE CONSERVATIVE GOVERNMENT (1984-1989)

A - INDIRECT TAXES (sales and excise taxes)

	<u>EFFECTIVE DATE</u>	<u>ANNUAL REVENUE</u>
- Increases in federal sales tax:		
a) Increase from 9% to 10%	Oct '84	\$ 1 billion
b) Increase from 10% to 11%	Jan '86	\$ 1 billion
c) Increase from 11% to 12%	Apr '86	\$ 1 billion
d) Increase from 12% to 13 ^{1/2} %	Apr '89	\$ 1.6 billion
- Extensions of the federal sales tax to new items:		
a) candies, soft drinks, pet food	July '85	\$ 400 million
b) snack foods	July '87	\$ 60 million
c) 10% federal sales tax on long distance telephone calls and cable services	Jan '88	\$ 945 million
- Increase in federal sales tax on long distance calls and cable services from 10% to 11%	June '89	\$ 110 million
- Increase in the federal sales tax from 8% to 12% on paint, wallpaper, toys and handicrafts	Jan '88	\$ 60 million
- Increase in federal sales and excise taxes on gasoline:		
a) 2 cents a litre	Sept '85	\$ 900 million
b) 1 cent a litre	Jan '87	\$ 450 million
c) 1 cent a litre	Feb '87	\$ 450 million
d) Increase in federal sales tax on leaded gasoline to equal sales tax on unleaded gasoline	Apr '87	\$ 30 million
e) 1 cent a litre	Apr '88	\$ 450 million
f) 1 cent a litre	Apr '89	\$ 320 million
g) 1 cent a litre on leaded gasoline	Apr '89	\$ 35 million
h) 1 cent a litre	Jan '90	\$ 320 million

.../2

A - INDIRECT TAXES (cont'd)

	<u>EFFECTIVE DATE</u>	<u>ANNUAL REVENUE</u>
- Increase in federal sales and excise taxes on alcohol and tobacco:		
a) first increase	May '85	\$ 340 million
b) second increase	Feb '86	\$ 150 million
c) third increase	Feb '86	\$ 70 million
d) fourth increase	Jan '88	\$ 175 million
e) fifth increase	Apr' 89	\$ 1 billion

B - DIRECT TAXES (income taxes)

	<u>EFFECTIVE DATE</u>	<u>ANNUAL REVENUE</u>
- a) elimination of Registered Homeownership Savings Program	May '85	\$ 105 million
- b) elimination of federal tax reduction for low income Canadians	Jan '86	\$ 650 million
- c) deindexation of the personal income tax system, family allowances, tax credits	Jan '86	\$ 635 million
- d) temporary 5% and 10% surtaxes on personal income taxes	from Jul '85 to Dec '86	\$ 500 million
- e) permanent general 3% surtax on all personal income taxes	Jul '86	\$ 1.2 billion
- f) changes to marital exemption	Jan '86	\$ 20 million
- g) increase in general surtax from 3% to 5% on all personal income taxes	Jul '89	\$ 1.1 billion
- h) high income surtax of 8% for high income Canadians	Jul '89	\$ 165 million
- i) claw-back of old age security pensions and family allowances	Apr '89	\$ 500 million

DISSENTING OPINION – NEW DEMOCRATIC PARTY

NEW DEMOCRATS

MINORITY REPORT ON THE GOODS AND SERVICES TAX

“The roots of the public’s discontent with Canada’s tax system are many, and they run deep. Each particular class of taxpayer has its own grievance against the peculiar way taxes are levied upon it. Any consideration of tax reform must consider the grievances of not only the wealthy, high income and corporate taxpayers; it must also consider the grievances of ordinary Canadians, who without doubt, shoulder the largest share of the tax burden.”

Raymond Koskie
Dissenting Comment in “Road
Map for Tax Reform” A
Statement by the Economic
Council of Canada, 1987
p. 32-33

“But the rich have declared that option closed, out of bounds. And so we are now engaged in a massive national debate on the future of our tax system - a debate in which the most important question in taxation is off-limits.”

Linda McQuaig, Behind Closed
Doors, Penguin Books, 1987,
p. 350

The most important question in taxation is “who pays?” Raising revenue needed to provide public goods and services necessary in civilized society is the technical job of the tax system. But the heart of every country’s economic system is the distribution of the resources that its citizens collectively produce. To address the questions of who bears the burdens in our society, and who reaps the rewards, is to address the central issue of what we, as a nation are all about - what values we cherish, what aspirations we hold. The tax system is the government’s most important

policy instrument ensuring that our aspirations of an equitable economic system are achieved.

In the minds of the Canadian public, tax fairness or equity has never meant that everyone should pay the same amount or the same percentage of their income in tax. Instead, equity has been measured on the basis of ability to pay. Everyone has basic needs which require a certain amount of income. Above and beyond that, income should be taxed at increasing rates to support the broader needs of society. Our whole notion of progressive income tax has been based on this understanding.

At present we are engaged in what is called "Tax Reform - Phase II" - and yet there appears to be no common understanding between the governors and the governed about what "tax reform" means, much less how to go about doing it.

Although the public perception is that the existing tax system is unfair (i.e., that the rich and multinational corporations are not paying their fair share) - the government's perception is that the only problem with the system is that it is inefficient. Its main concerns are that the tax system doesn't raise enough revenue, that some of the sources of that revenue are elusive and unpredictable, and that the well-to-do allege that the existing system diminishes their incentive to work and to save.

The government is keenly aware that earlier proposals to produce genuine progressive reform of the system ran into implacable opposition from wealthy vested interests - who were able to successfully block the major tax reform effort ushered in by the Carter Commission in the mid-sixties, and subsequent attempts in the late 1960s and the early 1980s.

Knowing however that any momentum for tax reforms must play to the public perception that the system is unfair, the Mulroney government has launched its pitch for public support of "Tax Reform" in the language of progressive reform.

"(The rich) ... should pay tax, and it should be a handsome tax."

Brian Mulroney
Televised Debate
1984 Election Campaign

"We all know that the tax system allows many profitable corporations to avoid paying a fair share of tax, year after year. We all know that it allows some people with very high incomes to pay less tax than the average Canadian wage earner, year after year. We all know that it

allows those who are able to use special tax breaks to shift the burden to others less able to carry it.”

Michael Wilson
House of Commons
June - 1987 - on
launching Tax Reform -
Phase I

“The GST will improve the overall fairness of the tax system.”

Michael Wilson
Goods and Services Tax:
Technical Paper, p. 3
August 1989

“...families earning less than \$30,000 per year ... will be better off...b-e-t-t-e-r off as a result of ... sales tax reform.”

Michael Wilson
House of Commons
May 5, 1989

But the reality of tax reform has been the antithesis of the rhetoric. Under the Conservatives, the whole notion of tax reform has been perverted to put in place a system that reduces the progressivity of the income tax, consolidates the benefits secured by the upper-income class and powerful corporations, and shifts the burden of taxation even further onto the backs of middle and lower income Canadians. The question of equity - of fairly distributing the burdens and benefits of society - will be pushed even further “off limits” if Phase I of Tax “Reform” is not corrected and Phase II goes ahead.

This result will not happen by accident. The Conservatives’ objective is to shift the tax burden away from income and towards consumption - and therefore away from those with most ability to pay and onto those least able to pay. Consumption taxes are inherently regressive. Poor people have to spend all the money they have on the necessities of life. Middle-income people spend most of what they earn, often all of it, on basic living expenses. But rich people have plenty of money left over after they have purchased all the goods and services they need. Thus, when savings are largely tax exempt - and consumption is fully taxed - the rich become richer, the poor, poorer. That’s what “regressive” is all about. The workings of this system are not hard to fathom - only the logic that would justify it.

Michael Wilson hinted at elements of his overall design in 1984 when he pledged to "reward success, rather than effort"; and questioned whether money for social programs could be better spent.

This is the approach of the supply-siders. The poor have too much money, and the rich have too little. If the poor have even less, it will spur them to work; if the rich are given even more, it will encourage them to work and invest. Both of these outcomes are thought to make us more productive, and more competitive; thus larger players on the stage of international trade and finance.

This theory is mean spirited. It is also wrong. Giving more money to the rich and to wealthy corporations has resulted in a frenzy of corporate cannibalism in North America over the past decade, an orgy that was financed by junk bonds and tax credits (no rich individual or corporation uses its own money for investment, after all), and resulted in massive job losses and depletion of productive assets. Tax money has been diverted from more productive uses, like upgrading the human resources which are the key to any long term competitiveness strategy. More importantly, the belief among the upper-income class that only the poor and middle class - the "drones", as one former Imperial Oil President characterized us - should be required to pay taxes has become more entrenched.

Ordinary Canadians, who are bearing increasingly heavy tax burdens to finance tax holidays for the well-to-do, think otherwise. Low and middle-income workers, struggling to make ends meet, are discouraged by tax laws that permit a few individuals to dine extravagantly at the expense of government revenues. They know instinctively what studies of the tax system, including the Carter Commission of over 20 years ago, have consistently shown — that honest reform of the tax system means making the system more progressive, ensuring that the rich pay their fair share.

Phase I of Michael Wilson's "Reform" accomplished the reverse. Phase II, if it proceeds, will entrench favouritism for the privileged, including big business and the rich, and undo the basic principle of our tax system - ability to pay.

Since the middle of August, this Committee has been studying the technical details of the Goods and Services Tax - otherwise referred to as Phase II of Tax Reform - in a philosophical vacuum. While it was generally agreed that the Manufacturers' Sales Tax was discriminatory and needed to be replaced, the question of whether Canada should replace it with another consumption tax or raise the revenue in some other way was never seriously considered by the Committee, in spite of massive public opposition to the GST and in spite of the fact that numerous alternatives were presented to the Committee by labour organizations, social policy groups, women's organizations and others.

From the outset, it was clear that the majority members of the Committee accepted without question the inevitability of much higher consumption taxes. Their only concern was to make the imposition of these taxes more palatable. In fact, the whole notion of situating the debate about the GST in a broader context of overall tax reform was so foreign to the Chairman that in the first day of committee hearings he berated Finance officials soundly for including in the package a tax credit proposal which would ease the burden temporarily on those least able to pay.

“You indicated that in many cases people would be considerably better off. Why did you organize a system to make some citizens considerably better off? Is this a tax department, or an income redistribution department? Are you also Deputy Minister of National Health and Welfare?”

Don Blenkarn
Finance Committee Hearings
August 15, 1989

The Chairman's clear conviction was that the tax system exists - not to improve equity among Canada's citizens - but merely to raise revenue in a way that does not burden the rich and powerful corporations.

And, in the main, the Committee restricted its inquiry to this concern.

This Report goes beyond the majority's self-imposed terms of reference and examines Conservative Tax Reform - Phase I and II - from the point of view of ordinary Canadians. In addition, New Democrats on the Committee will answer Finance Minister Wilson's question:

“What is your alternative?”

Tax Reform: Phase I - “Reform” of the Personal and Corporate Income Tax

The 1987 “Tax Reform” proposals can't be considered separately from tax changes introduced by the Conservatives since their election in 1984. Each step in tax reform is an integral part of the Conservative's overall agenda. It is important to get a sense of where that agenda is leading - and how it is affecting Canadian lives.

Setting the Stage for “Tax Reform”

From the moment they took office in 1984, the Conservatives set about to dismantle the basic structure of Canada's progressive tax system.

A) The Shift from Income to Consumption

On October 1, 1984, the Conservatives reneged on their election promise not to hike the MST from 9-10% as the Liberals had proposed in their last budget before the election. Subsequent budgets would take the tax to 11%, to 12% and finally to 13.5% and more goods would become subject to the tax. The result would be an increase in the sales tax burden for average families of some \$800 to \$1,000 between 1984-1990. Sales tax credits for the very poor would compensate for some of the burden, but in general the poor would be pushed further into poverty by sales tax increases.

B) Elimination of the Federal Tax Reduction

Again taking their cue from the Liberals, who had cut this tax break designed to assist middle and low-income families by 75%, the Conservatives eliminated the federal tax reduction completely in 1985. This provision had allowed the average family a tax break of \$100 a year. Its elimination, combined with deindexation, added about 1,000,000 poor Canadians to the tax rolls.

C) Deindexation of the Tax System and of Family Benefits

This change has been the most blatant tax grab of all. Since 1985, the exemptions, credits, and the marginal tax rate brackets have been indexed only for inflation above 3%. For taxpayers, this means that the real value of these credits and exemptions erodes at the rate of 3% per year. Each year, more poor Canadians find themselves pushed above the tax threshold, and wage earners whose salaries are merely keeping pace with inflation find themselves pushed into higher tax brackets.

At the same time family allowances were de-indexed and the dependent child exemption sharply reduced. The result - far less disposable income for ordinary families.

D) Lifetime Capital Gains Exemption and RRSP Top-Ups

In its first budget, in a gesture indicative of its disdain for progressive taxation, the Conservatives introduced a \$500,000 lifetime exemption on income earned from capital gains. Capital gains, as everyone knows, are acquired largely by the rich. They were handed the equivalent of a \$125,000 cheque in the same budget that added 1,000,000 poor Canadians to the tax rolls. Public outrage eventually resulted in the cheque being reduced to \$25,000 in 1987 when the lifetime exemption was reduced to \$100,000.

In addition, the 1985 Budget announced a tripling of RRSP deduction limits - another tax break designed specifically for upper-income earners. These two changes emphasized the Conservative belief that different kinds of income should be treated differently - i.e., capital gains income was more worthy than wage income and savings were to be more favoured than consumption.

E) Surtaxes

To help reduce the deficit, two new surtaxes were introduced. The surtax on all income earners was permanent. The surtax on the wealthy was temporary.

1987 Tax Reform - Phase I

Individuals

A) Converting Deductions to Credits

In this pre-election year, the Conservatives introduced their Income Tax Reform package. It was cleverly designed to appeal to tax reformers who had been urging the government for years to convert deductions (which favoured upper-income taxpayers) into tax credits (which provided the same dollar value to every taxpayer). In and of itself, this change would have made the tax system more progressive. But it was coupled with a major reduction in marginal tax rates for the wealthy, and thus the positive effect of this change was nullified.

B) Broadening the Tax Base

In order to give the appearance of engaging in a tax reform exercise, the Conservatives proposed a few measures to broaden the tax base, but most of these were half-hearted at best. For example, the \$500,000 capital gains exemption was reduced to \$100,000 - still leaving a handsome gift to high-income taxpayers. The inclusion rate for capital gains was to be increased - but only to 75%. The deduction for business meals and entertainment was reduced - but only by 20 percent. The large implicit subsidy for investors who borrow money in order to invest in assets not yielding a current return was restricted - but only by deferring their ability to claim the lifetime capital gains exemption. Many of the tax loopholes for the wealthy remained untouched.

C) Rate Reduction

The most significant change in the Phase I of tax reform was the lopping off of the top half of the progressive tax rate structure. The ten rates of the progressive income tax system were reduced to only three rates and the top marginal rate

was reduced from 34% to 29%. Under this “reformed” system a skilled craftsperson earning \$30,000 pays tax at only 5 percentage points less than the rate paid by a corporate executive earning 10 times as much. To place this change in some perspective, it might be noted that during the 1960s, a period during which Canada experienced some of its highest rates of economic growth and lowest rates of unemployment, the income tax had 17 rate brackets, with a top bracket of 82% commencing (in today’s dollars) at about \$1 million. This rate compares to the current combined federal-provincial top rate of 44%, commencing at an income of about \$55,000.

Whatever tax reform was achieved by converting deductions to credits and broadening the tax base was more than undone by these large and unjustified rate reductions.

D) Distributional Impacts

To make it saleable, the reform package took \$3.1 billion out of the income tax system. But the division of these savings was far from neutral. The bottom group - 26% of all households - received 8%; the top group - 2% of all households - received 12% of the tax cut.

The effect on families within these groups also defied any real commitment to a more progressive system. As Allan Maslove pointed out in a recent study for the Institute for Research on Public Policy:

“The effect of the reform was not evenly felt...if it had not been for the reforms, all families except those earning less than \$9,010 (the lowest 20%) would have had less disposable income than they had in 1984. After the reforms, two income groups were better off than in 1984: the lowest 30% and the top 1%.”

“The largest gains in disposable income accrued to the top 1%, averaging \$3,570, and to the lowest 10%, averaging \$90.”

The 1987 Tax Reform was supposed to eliminate tax liability on 850,000 poor Canadians. But 1,000,000 had become taxable since 1984 because of Conservative tax hikes, and many of the very poor would remain on the tax rolls in spite of tax reform. A two parent family with two children living at only 72% of the poverty line would have to pay taxes after tax reform. Before the Conservatives were elected that family would not have been taxable. For singles the tax threshold would hit even lower - at 54% of the poverty line.

Overall, according to statistics compiled by the National Council on Welfare (Social Spending and the Next Budget, April 1989) Conservative “reforms”

between 1984 and 1988 would cost a working poor family 60% more; a middle income family 17.4% more; and a wealthy family 6.4% less in income taxes in 1991. (All families have 2 parents, 2 children. The working poor family earns \$24,000; the middle income family, \$49,000; and the wealthy, \$122,000.)

Corporations

A) Shifting the Tax Burden

On the corporate side, Tax Reform 1987 was supposed to ensure that “corporations would carry a bigger share of the total tax load”, but the extent of the proposed increase, about \$5 billion over 5 years would be roughly equivalent only to a 1% increase in the federal sales tax over 5 years. (Sales tax hikes under the Conservatives had raised almost five times more revenue by the time this reform package was introduced.) Furthermore, a number of the proposed reforms have yet to be enacted.

B) Eliminating Tax Preferences

A few of the changes to the corporate tax system were significant - including the tightening up of fast write-offs for investments in machinery and equipment, and the elimination of special tax breaks in the resource sector. Of course these changes were “balanced” by a major cut in the corporate tax rate - from 36% to 28%, and from 30% to 23% for manufacturing, and many corporate tax preferences remained in place.

C) Absence of a Corporate Minimum Tax

The reform of the corporate tax was also undermined by the failure of the government to introduce a corporate minimum tax - especially since the White Paper concluded that 60,000 profitable corporations would continue to evade taxes even when the reform proposals were fully implemented. While the 1989 Budget introduced a new corporate capital tax - the Conservative version of a corporate minimum tax - Finance officials estimated that it would catch only about 3,600 firms.

Statistics Canada tax data released earlier this month by New Democrats indicates that the need for a corporate minimum tax has not disappeared. In 1987, 93,405 profitable corporations, with profits of \$27 billion were able to avoid paying a single penny in tax. These figures have risen dramatically through the '80's. In 1980, 63,000 profitable corporations paid no tax on profits of \$10 billion. By 1984, 85,000 corporations paid no tax on profits of \$15 billion. The level of corporate profit earned by corporations that do not pay one cent in tax

in any given year has almost doubled while the Conservatives have been in power. One can assume that the amount of corporate profits that bears a disgracefully low rate of tax of between, say, one to ten percent has also increased dramatically.

Tax Reform - Phase II : "Reform of" the Federal Commodity Tax

Selling the GST

"We will proceed with the sales tax, not because it is popular, but because it is right for the country."

Brian Mulroney
CBC — The National
August 23, 1989

Thus Brian Mulroney launched the selling of the sales tax in Canada. Much of what this Committee has been engaged in over the past three months amounts to the same thing.

Witness after witness appeared before the Committee to point out that the debate about the GST should be placed in the broader context of overall tax reform. In addition critics argued that the GST would harm the economy, cost thousands of jobs, burn a huge hole in ordinary Canadians' pocketbooks and push more Canadians into poverty.

But the Conservatives majority had already accepted the proposition that the GST was inevitable. In fact they embraced the idea. Once that become clear, all that was left, in their view, was how to work out the details of the package.

And so, despite many valid criticisms, the primary concern of the majority on this Committee was not whether we should have this tax or why, but how to broaden the base and lower the rate. The Committee thus effectively derailed any real discussion of tax reform - and the central question was again pushed off-limits.

Increasing Poverty by Design

When the government of New Zealand introduced the GST, consumers were told that they "must accept the existence of economic inequality because it is the engine which drives the economy."

Conservative politicians in Canada are more subtle. They tell us unpopular ideas are "in the national interest" or "right for the country". One Conservative member of the Committee told New Democrats that the GST is "your Medicare Tax".

The message couldn't be clearer. If ordinary Canadians want to protect their treasured social programs they will be forced to pay, and pay handsomely. If the GST proceeds, the notion that the rich and wealthy corporations should share the burden for the benefit of our whole society may be lost entirely. Moreover, if our social programs are dependent upon a regressive tax base they could slowly erode and disappear. It is far from inconceivable that this could happen.

With the government's withdrawal from financing the UI program, the entire cost of a major social program will soon be borne by a regressive payroll tax (UI premiums). Not surprisingly, this is how social programs are financed in the U.S.

Furthermore, the GST package is designed to establish that principle in the tax system. Canadians have been told that the GST rate had to be set at 9% in order to finance income redistribution through the tax credits. But why should this be the case? If income is actually being redistributed to the poor, it should be funded through an increase in taxes on the rich - not through a consumption tax which is inherently regressive.

As it stands, the GST "package" contains a tax credit to ease the burden of higher sales tax on the poor. Three fundamental problems plague the credit:

- * it is inadequate to cover the increase in sales taxes through the GST, especially for large families
- * it begins to phase out below the poverty line in major Canadian cities
- * it is only partially indexed and thus its value will be diminished gradually over time.

Partial indexation means that thousands of Canadians lose the credit every year. In year two of the GST, 100,000 families will lose the tax credit entirely. By year five, that figure will reach 700,000. Another 400,000 families will lose partial eligibility.

Meanwhile the cost of the credit to the government will decline in real terms, so that in year five, the government will be spending \$700 million less to assist the poor.

What is more, the credit does little to ameliorate the real problem with the sales tax - that it hurts the poor much more than it burdens the rich and distorts the whole notion of a tax system based on ability to pay.

The following example illustrates how regressive sales taxes are compared to income taxes: The government plans to raise \$18.5 billion through the GST (net of

credits). For a family earning \$20,000, the share of that \$18.5 billion would be \$695 (net of credits). If the government were to collect \$18.5 billion through the income tax system, that family would have to pay \$70. Thus, the GST imposes 10 times the burden on this poor family as the income tax.

For the \$100,000 family, the picture is considerably different. Raising \$18.5 billion through the income tax system would cost this family \$8,155. With the GST the family would pay \$4,875, or 40% less.

The following table, based on Finance Department Statistics, was compiled by Nate Laurie of the Toronto Star (October 12, 1989), and compares the tax burdens on families in various income classes when the same revenue (\$18.5 billion) is raised through the income tax and the GST.

**Comparable GST and
Income Tax Burdens Needed to Raise \$18.5 Billion
(one-earner couple, 2 children)**

1991

<u>Income</u>	<u>GST*</u>	<u>Income Tax</u>
\$ 20,000	\$ 695	\$ 70
30,000	1,405	747
45,000	2,475	2,303
60,000	3,115	3,953
100,000	4,875	8,155

* Net of Refundable Sales Tax Credit

Canadians have been led to believe that the damaging impact of the GST could be reduced if the rate were lowered and the base broadened. But this is simply not the case. The reality is that for more than half of Canadian families living below the poverty line, the GST will worsen their condition. The poor will start out poorer, and their situation will gradually deteriorate, because the tax credits will erode with time. Large families will be particularly hard hit.

The impact of the GST on housing costs will also harm Canadian families. As the most expensive item in any family's budget, the proposal to add 4.5% to the cost of new housing should alarm all Canadians. If the tax base is broadened to include purchases of all housing instead of just new housing, the primary victims will be first time homebuyers, who will find the dream of owning their own home pushed even further beyond their reach.

Ordinary Canadians and particularly the poor will be big losers under Michael Wilson's GST. Who are the winners?

The GST and Big Business

The group which has lobbied hardest and will profit most from the elimination of the MST is big business - the alleged victim of the discriminatory MST, and the group which pays for half the tax, according to Finance Department estimates. This means that half of the MST revenue is collected on business inputs. Although it is unclear how much of this cost business is able to shift to consumers, at least \$2.5 billion of it is levied on inputs for products destined for export. Under the GST, no tax will be imposed on exports. This means that Canadian consumers will be asked to pay roughly \$2.5 billion more in taxes in order to cover the revenue losses on goods sold abroad.

Even if the basic price on some domestic goods goes down when the MST is eliminated, Canadians will still be paying higher prices for most goods after the 9% GST is applied. One thing that is certain is that Canadians will pay more for our products than Americans. This includes energy goods like oil, natural gas, electricity - which could not be sold in the U.S. at a lower price prior to the signing of the FTA. The trade deal ensured that we could not discriminate in favour of our own consumers. The GST ensures that we discriminate against them.

Opponents of the Free Trade Agreement have always claimed that the GST would be one of the many costs that Canadians would have to pay for the trade deal - since more tax revenue would be needed to offset the loss of tariffs, which collected about \$2 billion a year.

But the GST will do more than recoup lost tariff revenues. Both the Mulroney government and big business organizations have argued that the MST discriminates against exporters. By providing full rebates for business input costs the GST will ensure that Canadian goods can be sold more cheaply abroad.

This may give Canadian producers a short term advantage in world markets - but experience with VAT's introduction in other nations has not shown any significant effect on exports. As Alan Tait points out in "Value Added Tax: Practices and Problems" (pp. 224-6)

"The argument that a VAT would increase exports only works if a real cut in domestic factor returns can be engineered. The evidence is that fluctuations in exchange rates and world demand make the effects of VAT ... pall into insignificance."

In simple language, if a Value Added Tax is accompanied by lower domestic wage rates - it might increase exports. But the value of the dollar and a market for products produced in Canada are far more important considerations.

It should come as no surprise to Canadians that the only group in Canada which has consistently supported the GST - the big business community - is advocating a tax change which will only work to their advantage if it is accompanied by lower wages. Nor is it a coincidence that the government which launched this tax change said it would work best if ordinary Canadians agreed to accept a "one time" drop in their real wages. Big business has been inordinately successful in selling Canadians on the idea that their own agenda is identical to Canada's "national interest". But Canadians should be very wary of this. The group which is now trying to sell us the GST is the same one which brought us the trade deal, deficit hysteria, and meaner social programs.

GST and Small Business

In contrast to the Canadian Manufacturers' Association, the Business Council on National Issues, the Canadian Exporters' Association, and the usual loud voices, many in the small business community oppose the GST.

A number have kept considerable pressure on the government to withdraw the tax on the grounds that

- * the only acceptable retail tax for small business is a harmonized, single rate federal-provincial tax
- * cost of compliance and complexity of administration would be a "nightmare" for both small retailers and the government, imposing additional costs of up to \$2 billion
- * the tax will be hidden
- * economic costs of higher inflation, job loss, and a wage price spiral could turn a slowdown into a full blown recession
- * provinces with the weakest economies and the highest retail sales taxes could be most hurt by it
- * the government is indulging in a "con" game with its numbers and misleading Canadians about the GST effects.

These are the standard concerns raised by most economic forecasters and many interest groups about the GST, and not one of them has been effectively answered by the Government or the GST salesmen on this Committee. Attention to these valid concerns, however, has been deflected to the Committee's more pressing interest in designing a GST package with a lower rate and a broader base.

GST and Farmers

Canadian farmers have raised serious concerns about the impact of the GST on their financial stability since major input costs (such as machinery) will increase, and there is a time lag between payment of these costs and receipt of refunds. Moreover, inputs eligible for rebates will be subject to dispute, since the government is still unclear about what is taxed and what is not. Administration will be costly and cumbersome. The Canadian Federation of Agriculture has estimated that the costs to small farmers for administration alone will be between \$1500 and \$2000, and for farmers across Canada, the compliance costs will be in the neighborhood of \$150 million.

Shifting the Tax Base from Income to Consumption

If the GST goes forward, Canadians will see their whole tax system shifted further from an income to a consumption base. In 1984, sales and excise taxes made up 19.3% of federal revenues; by 1989 they were providing close to 25%; and by 1991, if the GST is in place, that figure will rise to almost 30%.

Because consumption taxes take so much more from low income Canadians than taxes on income, the introduction of the GST will mean that a major instrument of national policy — the tax system — is being used to produce a more divided society. Under the government's proposal, the poor will become even poorer. The rich will become even more powerful, and the wealthiest corporations will receive a large windfall. The only "reform" will be to Michael Wilson's balance sheet.

On the whole Canada will be a poorer and less equitable society.

NDP ALTERNATIVE TO THE GST

Over the years, the New Democratic Party has consistently argued for fundamental reform of our tax laws. Fundamental reform is necessary in order to achieve a pattern of economic growth that is steady, sustainable, and non-inflationary; but it is also necessary in order to achieve a distribution of income and wealth that is fair and just.

After five years of tax policies designed to benefit corporations and wealthy individuals, in the so-called Phase II of its "Tax Reform", the Conservative government is proposing a massive shift in the federal tax system from income to consumption. With a broad based federal consumption tax, the Conservatives will have the lever they need to raise revenues in every budget to solve the problem they have identified as the most crucial for Canada — the federal deficit. During the election campaign, Michael Wilson had promised not to raise "one more penny in tax" from sales tax reform, but by August 1989 when the GST was introduced, deficit reduction had become a key objective.

GST, Interest Rates and Deficit Reduction

International experience has demonstrated that once a VAT style tax (like the GST) is introduced, the sales tax rate is the most convenient vehicle to correct government balance sheets. Very few Canadians would accept the government's view that a regressive consumption tax is the best way to reduce the deficit. New Democrats, economists, small business, social policy groups, and virtually every Premier in the country have been urging the government to take action to bring down the deficit by reducing interest rates. According to Michael Wilson's own estimates, a 2% reduction in interest rates would bring the deficit down by \$3.2 billion in the first year alone, and several more billion could be shaved from the deficit in future years as well. This approach to deficit reduction would save the government billions on the expenditure side, and also provide the stimulus needed to encourage investment, increase job growth, reduce transfers through UI and welfare programs, and raise personal and corporate income tax revenues. The government has consistently refused to take such action, and has instead allowed interest rates to rise significantly. This means that this year's budget deficit will be much higher than forecast and that poor and middle income earners will be asked to pay much higher federal sales taxes to cover the shortfall.

But average Canadian families are already paying much higher federal taxes than they did five years ago. These hard-pressed families, who by and large have watched their wages and income stagnate, are not the cause of the government's financial problems. High-income families and corporations have watched their

incomes and wealth grow by leaps and bounds, even while the country that makes their way of life and profits possible remains saddled with debt.

The NDP has always insisted that in order to ensure the rich and corporations pay their fair share of the tax burden, the government should place less reliance on inherently regressive consumption taxes and more reliance on progressive income taxes. Our alternative to the GST rests on this fundamental premise of fair taxation. It is the kind of alternative that numerous groups urged upon the Committee during its hearings, including, for example, the Canadian Labour Congress, the United Steelworkers of America, the Pro-Canada Network, the National Council of Welfare, the National Anti-Poverty Organization, One Voice Seniors' Network and the National Action Committee on the Status of Women. The Conservative majority members of the Committee chose to ignore the arguments of these groups.

NDP Alternative to the GST

New Democrats would establish a new Royal Commission whose key objective is to redesign the tax system to one based on ability to pay. As part of its mandate, the Royal Commission would also be asked to determine how the system can best be used to secure necessary government revenues and promote the goals of full employment and a more equitable society.

The tax system is such an important instrument of national policy that, like the Bank Act, it should be subject to periodic review. The last Royal Commission on taxation was established more than 25 years ago. Since that time, the tax system has changed significantly. New Democrats believe that it is time for another major review of the tax system to study the direction tax "reform" efforts have taken over the past two decades, and to propose a sensible alternative to the manufacturers' sales tax.

In the interim, we would proceed with the following proposals as an alternative to the GST, and to restore needed elements of fairness to the tax system.

The government's GST proposal is expected to raise \$18.5 billion (net) and to spend an additional \$2.4 billion on tax credits to the poor. New Democrats would retain the tax credit, and raise the additional \$18.5 billion through the following measures:

- * roll MST back to 1984 rate of 9% (a cut of 33%) on an interim basis (Revenue: approximately \$12.3 billion)
- * implement the enhanced tax credit and index it to the rate of inflation to compensate low income Canadians for the regressive changes to the tax system. (Cost \$2.4 billion)

- * increase the excise tax on alcohol, cigarettes, and gasoline to ensure that existing revenues from these sources are not diminished. (Revenue: approximately \$1.5 billion)
- * impose a “green tax” - an excise tax - to discourage production and use of environmentally hazardous goods.
- * reform the individual income tax to limit or eliminate tax preferences used by the rich to avoid paying their fair share of the tax burden. (Revenue: approximately \$3 billion)
- * reform the corporate income tax to limit corporate tax breaks and introduce a corporate minimum tax. (Revenue: approximately \$2.5 billion)
- * introduce a tax on transfers of wealth. (Revenue: approximately \$1.5 billion)

Excise Tax Changes

The government seems intent on taxing all goods and services at the same rate. However, there are a number of valid justifications for differential tax treatment of particular commodities: to discourage over-consumption of certain goods that might be harmful to society, and to pay for public costs incurred by certain consumption activity.

“Sin” Taxes and Sales Tax on Gasoline

At present alcoholic beverages and tobacco products are taxed at a rate of 19% under the MST. The government proposes to reduce this rate to only 9% under the GST. We see no reason to reduce the tax burden on these products. We would either leave the MST on these products at 19%, or increase the excise tax on them to make up the difference. Also, we would not reduce the present federal sales tax burden on fuels.

A “Green” Tax

Environmentally sound products often cost more than products that are sustainable. The GST only widens this gap, making it more difficult for consumers to choose “greener” products. We would impose special excise taxes on selected products to ensure that the Canadian public was adequately compensated for the environmental damage that accompanied the production, marketing and eventual disposal of these products. Thus, for example, products made out of styrofoam, aerosol

cans, and similar products would bear a special tax to reflect the damage they impose on our environment and the burden to our landfill and waste disposal system.

A special excise tax would be assessed on the sale or use by a manufacturer of certain ozone depleting chemicals, and the import into Canada of such chemicals in products containing them. Ozone depleting chemicals include chlorofluorocarbons and halons.

Furthermore, an additional tax would be imposed on products that produce carbon emissions. Not only are carbon emissions contributing to the greenhouse effect, but they combine with sunlight to produce ground level ozone which has serious impacts on our health. A “carbon tax” would encourage energy conservation and raise revenues for research and development of alternative energy sources. The Canadian government should be using all of the policy instruments at its disposal, including the tax system, to assist the global community in fending off the impending catastrophe.

Income Tax Reform

Individuals

The individual income tax is potentially the fairest and most visible tax in the federal tax system. Its base ought to be broadened so that the rich are not able to “shelter” their high incomes from tax and deduct the costs of their extravagant living styles, and its rate structure ought to be made more progressive. The following are indicative of the changes that should be made.

Capital Gains

Capital gains are realized exclusively by high-income taxpayers. Over 80% of capital gains are received by the top 20% of taxpayers, and roughly 35% by the top 1% of taxpayers. Yet they are subject to very favourable tax treatment. At present only two-thirds of capital gains, and in 1991 three-quarters of capital gains, have to be included in income and \$100,000 of a taxpayers’ lifetime capital gains are exempted from income tax entirely. Although we would retain the \$500,000 exemption for small businesses and farmers, and the exemption for principal residences we would tax capital gains at the same rate as other income, and eliminate the \$100,000 lifetime exemption. Providing preferential tax treatment for capital gains violates every criteria of a good tax system: it distorts economic choices, it greatly complicates the tax system, and it is grossly unfair.

Excess Interest Expense

The ability of taxpayers to deduct their interest expense in excess of their investment income amounts to a huge negative income tax for the wealthy. In 1981 the government reported that taxpayers who earned over \$50,000 and paid not one penny in tax claimed, on average, over \$40,000 of interest deductions in excess of their investment income. If a taxpayer is able to borrow money in one year and deduct the interest expense, but not pay tax on the related income until some future year, they are better off because of the time value of money, even though their interest expense only equals or even exceeds their investment income. Such a rule is not only inequitable, it promotes inefficient investment. Interest on money borrowed to invest should not be deductible to the extent that it exceeds a taxpayer's investment income.

Entertainment Expenses

Under the present tax law, business people can deduct 80% of the cost of business meals and entertainment. Currently the government is spending almost as much on this tax break as it spends on the entire sales tax credit for the poor — about a billion dollars a year. At a time when 378,000 Canadians including over 150,000 children are dependent on food banks for survival, our tax system should not allow deductions for entertainment expenses or expensive business meals. Moreover, the deductibility of luxury travel costs such as first class air fare and luxury hotel accommodation should be limited. Experience in other countries that have limited the deductibility of these types of expenses, such as the United Kingdom and Australia, has shown that when the subsidy for extravagant expense account living is removed the effect on total employment in the restaurant industry is minimal. Business people continue to live extravagantly in these countries, but they have to pay their own way.

Contributions to RRSPs

The tax subsidy for contributions to RRSPs continues to take the form of a tax deduction. Thus high-income taxpayers receive a larger subsidy for saving the same amount of income for retirement as low-income taxpayers. The deduction for contributions to RRSPs should be converted into a tax credit. Also, naturally, high-income taxpayers can afford to save much more for their retirement than low-income individuals. The government should not be subsidizing the wealthy for retirement incomes that ordinary workers cannot even dream about. The government has proposed that the amount that qualifies for favourable tax treatment be increased from \$7,500 a year to \$15,500. It does not make any sense to shift the tax burden to the poor so that more can be spent subsidizing the retirement savings of the rich. We

would freeze the amount of retirement savings that qualify for a tax credit at its current level.

Withholding Tax on Income from Capital

Employees have all of their tax withheld at source. However, high-income individuals who earn income from dividends, interest income and capital gains only pay the tax on this income in the year following that in which they receive it. Indeed, there is substantial evidence that much of this form of income goes unreported. We would require that 10% of all dividends, interest, and other forms of income from capital be withheld at source and remitted in the same way that a portion of salary and wages are withheld and remitted to Revenue Canada on behalf of employees. Low-income elderly individuals would be able to apply for an exemption from this withholding requirement.

Tax Rates

It is a scandal that the income tax structure has been nearly flattened, there are only three brackets and only 3 percentage points separate the middle and the top brackets. We would introduce another tax bracket at 34% for incomes between \$75,000 and \$100,000 and add a fourth bracket for individuals earning over \$100,000 of 40%. In Phase I of Tax Reform, by eliminating many rates at the same time that they broadened the tax base, the Conservatives simply legitimized all of the inequities that were in the Act. The government made much of the fact that by reducing the rate structure from 10 brackets to 3 they were simplifying the tax system. In fact they were only making it more regressive. The number of brackets has no bearing on simplification. Most taxpayers use government provided tax tables in computing their tax payable and thus never see the rate schedules, and those who do not use the tax tables must make two calculations to arrive at their tax payable whether the tax structure has 52 brackets or only 3.

Corporations

Even before the Conservatives reduced the general federal corporate tax rate from 36% to 28% in 1988, corporations paid a much smaller part of the tax burden than they did at any time in the recent history of Canadian income tax. Moreover, many corporations continue to pay tax at low effective rates and continue to have large outstanding deferred tax liabilities. We would collect at least an additional \$2 billion from corporations through base broadening measures. Thus not only would corporations pay more of their fair share but the tax system would distort corporate investments less. Taxing capital gains at full rates, and disallowing the deductions of business meal and entertainment would both serve to broaden the corporate tax base,

but there are a number of other obvious base broadening measures that could be taken on the corporate side to raise revenue.

Manufacturing and Processing Profits Deduction

Manufacturing firms are generally entitled to a lower rate of taxation than are non-manufacturing firms of the same size. They are entitled to a manufacturing and processing profits deduction that effectively reduces their federal rate of tax from 28% to 23%. One justification for this lower rate of tax has always been that manufacturing firms had to bear the discriminatory manufacturers' sales tax. If this tax is rolled back in 1991 as we propose, from collecting an estimated \$18.5 billion to only collecting \$12.3 billion, this special privileged income tax rate can be phased out. Moreover, study after study has shown that the special rate is not effective in increasing investment and employment in the Canadian manufacturing sector.

Real Estate Developers

Corporations that engage in real estate development, which includes some of Canada's largest corporations, consistently pay tax at low effective rates and often make huge profits and pay no taxes. A number of tax rules relating to these companies should be tightened. For example: developers are able to claim huge amounts of depreciation for office, industrial and apartment buildings. Yet these buildings seldom depreciate in value. Indeed, huge profits are routinely made selling them for more than their original cost, and to the extent that there is any reduction in the value of the buildings, it is usually more than offset by an increase in the value of the underlying land. These deductions should be drastically restricted. Also, when a building has appreciated in value, often by 2 or 3 times its original cost, developers are able to borrow money against the appreciated value of the building without recognizing any of the gain in value as income. When corporations borrow money against the appreciated value of their assets, they have in effect realized the gain on those assets and should have to include it in their income.

Curbing Tax Incentives for Mergers and Acquisitions

The wave of mergers and leveraged buyouts in Canada that appear to be preoccupying our corporate managers and executives to the exclusion of productive investment is significantly spurred by our tax policies. The deduction of interest on money borrowed to purchase shares in another corporation is a large unjustified tax subsidy which among other things subsidizes foreign corporations buying up Canadian assets. Limiting the deductions on debt incurred to finance acquisitions and stock buyouts should be part of any tax reform exercise.

Dividend Tax Credit

At present, dividend income is taxed at a lower rate than ordinary income because of the dividend tax credit. Shareholders who receive dividends are entitled to claim a credit equal to about 25% of the dividend. This credit is a windfall to high-income taxpayers. The irony of the Canadian dividend tax credit is that even though it is allegedly intended to reduce the so-called double taxation on corporate-source income, shareholders receive the credit even though the corporation paying the dividend did not pay any corporate tax.

Advertising and Lobbying Expenses

At present, corporations, but not other groups, receive a massive subsidy from the public purse in order to assist them in persuading the public to purchase their products, and to persuade legislators to enact laws that are in their self-interest. Advertising expenses, (even though their benefits in many cases extend over a number of years), can be deducted by corporations as current expenses. Advertising expenses, or some portion of them, should be required to be deducted over a three year period. This would result in a better matching of expenses with the income generated by them.

Businesses can also deduct as a current business expense all of their cost of lobbying the government for special treatment. Why should the public be subsidizing businesses lobbying efforts, when the efforts of those who lobby in the public interest are normally not subsidized? Lobbying expenses incurred by businesses should be non-deductible.

In addition, advertising which is political in nature should not be subsidized by the taxpayer. Furthermore, if advertising does not relate directly to the firm's products, it should be disallowed.

Clamping Down on Corporate Cheaters

Revenue Canada audits of corporations has declined dramatically. In 1974 Revenue Canada audited over 7% of all corporate tax returns. In 1981-82 it audited 4%, in 1983-84 2.6%, and in 1989-90 Revenue Canada will audit 1.8%. This dramatic decline in the auditing of corporate tax returns has occurred despite the fact that for every \$1 Revenue Canada spends auditing corporate tax returns it recovers \$17.

Corporate Minimum Tax

Many large corporations continue to pay tax at extremely low effective rates. And even if the above reforms were enacted, some might still find ways to avoid

paying tax on large portions of their profits. In order to ensure that all corporations are paying their fair share of tax, and that all businesses bear about the same amount of tax, a tough alternative minimum tax based on corporate "book profits" should be enacted. In their tax reform, the Conservatives did not even go as far as their "conservative" counterparts in the United States. In 1986 the United States substantially toughened its corporate minimum tax. Corporate tax payments which in the middle of the 1980s accounted for less than 8% of the federal budget increased so that they covered almost 12%. The average effective tax rates on 250 of the largest American companies increased from under 15% to over 25%. At the same time, illustrating that the fair taxation of corporations does not deter productive investment, real business fixed investment has grown at an annual rate of 6 percent since 1986, almost triple the rate of growth over the previous five years.

New Democrats would introduce a corporate minimum tax at a rate of 20%, equal to the rate in the United States. This would ensure comparable levels of taxation for businesses operating on both sides of the border.

Deferred Taxes

Through much of this decade, the accumulated value of deferred taxes has been approximately the same level as the federal deficit. Each year, corporations in Canada "defer" roughly \$2 billion more in taxes. These deferrals should decline in value with the elimination of a number of tax breaks but in the meantime deferred taxes act like a permanent source of interest-free financing for business. Some analysts have noted that deferred taxes should more appropriately be called equity instead of debt - especially since the size of unused corporate tax credits (deferrals) is often the bait which attracts merger bids. (Dome Petroleum was \$6 billion in debt when it was taken over, but it had \$1 billion in tax losses - as well as valuable resource holdings - to sell). Prospective suitors can use unused credits or tax losses to reduce their own income tax burden. In order to reduce the advantage of these tax "loans" to business the government should begin to charge interest of 10% on taxes deferred by big businesses.

Wealth Tax

The most obvious and tragic omission from the government's tax reform exercise is the failure to implement a wealth transfer tax. Wealth is many times more concentrated than income. For example,

- * ranked by wealth, the bottom 40% of Canadian families own virtually nothing, the top 5 percent own nearly 50 percent of the wealth

- * Canada's 32 wealthiest families, along with five conglomerates, control about one-third of the country's non-financial assets, nearly double what they controlled just four years before. (In the United States the 100 largest firms owned only one-third of the non-financial assets.)
- * the combined wealth of Canada's 32 wealthiest families has been estimated at over \$132 billion
- * of Canada's 400 largest corporations, only 20 are widely held. The other 380 are controlled by one of Canada's wealthiest families.

At present the tax system does nothing to reduce these enormous concentrations of wealth. This means that if nothing is done, the country will be run by a royalty of rich families, ensconced for generations if they wish.

Canada is one of the few industrialized countries that does not impose a tax on wealth transfers. Since 1972, when the federal government abolished its estate and gift tax, it has been estimated that Canadians gave a gift of over \$10 billion to Canada's wealthiest families. It is time to begin collecting part of the returns on that gift.

Conclusion

In the government's view, the most important objective of tax reform has been to shift the tax burden from high-income individuals and powerful corporations to lower-income individuals. A key element in achieving this objective is to shift the tax burden from progressive income taxes to regressive consumption taxes. So intent is the government on achieving this objective that in introducing its new GST it is prepared to incur the wrath of small businesses by imposing complicated and expensive new compliance costs on them, jeopardize relationships between the federal and provincial governments by occupying tax room traditionally occupied by the provinces, and run the risk of high inflation, high interest rates and high unemployment.

The Conservatives have sought to justify this move in terms that appear to transcend the self-interest of the immediate beneficiaries. They have suggested that unless the tax burden is shifted from progressive income taxes to regressive sales taxes the rich will not save and invest, and our industries will not be able to compete in the global economy. Nobody believes this — that if we sacrifice the standard of living of the vast majority of Canadians in order to make the rich richer and corporations more powerful, at the end of the day, we will all benefit. Common knowledge is against it, and there are no studies to support it.

Indeed, in making these arguments the government proves itself to be not only mean-spirited but foolish. Virtually every country in the Western world experienced

its greatest rates of economic growth during periods when personal and corporate income tax rates were much higher than they are today and much higher than we are proposing to make them. There is absolutely no correlation between the extent to which countries in the industrialized world rely upon regressive consumption taxes to raise revenue and their national rates of savings.

Increasing disparities in income and wealth will ultimately only serve to make Canada a poorer country. In a country blessed with natural resources like Canada, the increasing incidence of hunger, homelessness, welfare, and low paying jobs is not an economic necessity. It reflects a fundamental value choice.

In the long run, the quality of life that the Conservatives and their friends are denying to middle and lower income Canadians will include their own.

LIST OF WITNESSES

LIST OF WITNESSES

	Issue No.
AIR B.C.	51
AIR TRANSPORT ASSOCIATION OF CANADA	61
ALBERTA ASSOCIATION OF SOCIAL WORKERS	53
ALBERTA CATTLE COMMISSION	54
ALBERTA FEDERATION OF LABOUR	54
ALBERTA LAW FOUNDATION	53
ALBERTA TOURISM ASSOCIATION	54
ALBERTA WEEKLY NEWSPAPERS ASSOCIATION	53
ALLIANCE OF CANADIAN CINEMA, TELEVISION AND RADIO ARTISTS	63
ALLIANCE OF CANADIAN TRAVEL ASSOCIATION	47
ALLIANCE OF CANADIAN TRAVEL ASSOCIATIONS	61
AMERICAN FEDERATION OF MUSICIANS OF THE UNITED STATES AND CANADA	63
ANDY FRIEDMAN, PEAT MARWICK	34
ARTHUR ALAN DE JARDIN	58
ASSEMBLY OF FIRST NATIONS	80
ASSOCIATION DES ÉDITEURS	42
ASSOCIATION OF CANADIAN DISTILLERS	46
ASSOCIATION OF CANADIAN ORCHESTRAS	64
ASSOCIATION OF CONSULTING ENGINEERS OF CANADA	66
ASSOCIATION OF KIN CLUBS	79
ASSOCIATION OF MUNICIPALITIES OF ONTARIO	79
ASSOCIATION OF UNIVERSITIES AND COLLEGES OF CANADA	40
ASSOCIATION OF YUKON COMMUNITIES	47
ATLANTIC BUILDING SUPPLY DEALERS ASSOCIATION	73
ATLANTIC MUNICIPAL PURCHASING ASSOCIATION	73
ATLANTIC PROVINCES FEDERATIONS OF LABOUR	73
ATLANTIC PROVINCES TRANSPORTATION COMMISSION	73
ATTRACTIONS ONTARIO	67

AUTOMOTIVE INDUSTRIES ASSOCIATIONS OF CANADA	75
AVON CANADA INC.	68
B.C. ASSOCIATION OF SPEECH LANGUAGE PATHOLOGISTS AND AUDIOLOGISTS	50
B.C. PSYCHOLOGICAL ASSOCIATION	50
BAKERY COUNCIL OF CANADA	41
BILL DEACON	54
BOWLING PROPRIETORS' ASSOCIATION OF NORTHERN ONTARIO	78
BRITISH COLUMBIA ASSOCIATION OF SOCIAL WORKERS	52
BRITISH COLUMBIA CHAMBER OF COMMERCE	52
BRITISH COLUMBIA FEDERATION OF LABOUR	48
BRITISH COLUMBIA LIBRARY ASSOCIATION	48
BRITISH COLUMBIA MEDICAL ASSOCIATION	48
BRITISH COLUMBIA PROVINCIAL COUNCIL OF CARPENTERS	48
CALGARY CHAMBER OF COMMERCE	53
CALGARY TENT AND AWNING LIMITED	46
CANADA COUNCIL	64
CANADIAN ADVANCED TECHNOLOGY ASSOCIATION	66
CANADIAN APPLIANCE MANUFACTURERS ASSOCIATION	75
CANADIAN ART MUSEUMS DIRECTORS ORGANIZATION	53
CANADIAN ARTISTS' REPRESENTATION	64
CANADIAN ASSOCIATION OF BROADCASTERS	64
CANADIAN ASSOCIATION OF DATA AND PROFESSIONAL SERVICE ORGANIZATIONS	77
CANADIAN ASSOCIATION OF NUMISMATIC DEALERS	57
CANADIAN ASSOCIATION OF UNIVERSITY TEACHERS	76
CANADIAN AUTOMOTIVE LEASING INDUSTRY	77
CANADIAN BANKERS' ASSOCIATION	36
CANADIAN BAR ASSOCIATION	35
CANADIAN CHAMBER OF COMMERCE	38
CANADIAN CONFERENCE OF THE ARTS	64
CANADIAN CONSTRUCTION ASSOCIATION	46
CANADIAN COOPERATIVE CREDIT SOCIETY	36
CANADIAN COUNCIL OF GROCERY DISTRIBUTORS	41

CANADIAN DAILY NEWSPAPER PUBLISHERS ASSOCIATION	42
CANADIAN EXPORTERS' ASSOCIATION	45
CANADIAN FARM AND INDUSTRIAL EQUIPMENT INSTITUTE	74
CANADIAN FEDERATION OF AGRICULTURE	74
CANADIAN FEDERATION OF FARM EQUIPMENT DEALERS	74
CANADIAN FEDERATION OF INDEPENDENT BUSINESS	33
CANADIAN FEDERATION OF LABOUR	76
CANADIAN FEED INDUSTRY ASSOCIATION	58
CANADIAN FEED INDUSTRY ASSOCIATION (SASKATCHEWAN DIVISION)	55
CANADIAN GAS ASSOCIATION	66
CANADIAN GIFT & TABLEWARE ASSOCIATION	69
CANADIAN HOME BUILDERS' ASSOCIATION	38
CANADIAN HORSE COUNCIL	67
CANADIAN HOSPITAL ASSOCIATION	65
CANADIAN HOUSING AND RENEWAL ASSOCIATION	77
CANADIAN INDEPENDENT ADJUSTERS' ASSOCIATION	68
CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS	39
CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES	39
CANADIAN JEWELLERS ASSOCIATION	62
CANADIAN LABOUR CONGRESS	59
CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION	36
CANADIAN MAGAZINE PUBLISHERS ASSOCIATION	42
CANADIAN MANUFACTURERS' ASSOCIATION	45
CANADIAN MEDICAL ASSOCIATION	80
CANADIAN NATIONAL INSTITUTE FOR THE BLIND	80
CANADIAN NURSES ASSOCIATION	65
CANADIAN ORGANIZATION OF SMALL BUSINESS INC.	74
CANADIAN PARAPLEGIC ASSOCIATION (NEWFOUNDLAND DIVISION)	70
CANADIAN PARAPLEGIC ASSOCIATION (P.E.I. DIVISION)	71
CANADIAN PARAPLEGIC ASSOCIATION	40
CANADIAN PSYCHOLOGICAL ASSOCIATION	65
CANADIAN REAL ESTATE ASSOCIATION	39
CANADIAN RESTAURANT AND FOODSERVICES ASSOCIATION	33
CANADIAN RETAIL HARDWARE ASSOCIATION	44

CANADIAN SKI AREAS OPERATORS ASSOCIATION	48
CANADIAN SOFTDRINK ASSOCIATION	41
CANADIAN TEACHERS' FEDERATION	78
CANADIAN VETERINARY MEDICAL ASSOCIATION	77
CANADIANS FOR GREATER GOVERNMENT ACCOUNTABILITY	54
CANAVAN'S INSURANCE APPRAISAL LTD.	72
CENTRALE DE L'ENSEIGNEMENT DU QUÉBEC (CEQ)	60
CHAMBER OF MINES	83
CHRISTMAS TREE COUNCIL	72
CITY OF TORONTO	79
CITY OF YELLOWKNIFE	83
COAL ASSOCIATION OF CANADA	54
COALITION FOR EQUALITY	70
COALITION AGAINST FREE TRADE	49
COALITION OF CANADIAN TRANSPORT ASSOCIATIONS AND CARRIERS	61
COALITION OF PROVINCIAL ORGANIZATIONS OF THE HANDICAPPED	57
COMMERCIAL TRAVELLERS' ASSOCIATION OF CANADA	69
CONFECTIONERY MANUFACTURERS ASSOCIATION OF CANADA	40
CONFÉDÉRATION DES CAISSES POPULAIRES ET D'ÉCONOMIE DESJARDINS	37
CONFÉDÉRATION DES SYNDICATS NATIONAUX	59
CONFERENCE BOARD OF CANADA	34
CONSEIL INTERPROFESSIONNEL DU QUÉBEC	68
CONSEIL QUÉBÉCOIS DU THÉÂTRE	63
CONSUMERS ASSOCIATION (N.W.T.)	83
CONSUMERS ASSOCIATION OF CANADA	31
COOPERATIVE HOUSING FOUNDATION OF CANADA	77
CORPORATION DU GROUPE LA LAURENTIENNE	37
CORPORATION PROFESSIONNELLE DES PSYCHOLOGUES DU QUÉBEC	65
COSMATOLOGIST ASSOCIATION OF SASKATCHEWAN	55
COUNCIL OF FOREST INDUSTRIES OF BRITISH COLUMBIA	51
COUNCIL OF YUKON INDIANS	47
CRICKLEWOOD GIFTWARE	72
CULTURAL FEDERATION OF NOVA SCOTIA	72
DANIEL ST-JEAN, SMALL BUSINESSMAN	47

DENE MÉTIS SECRETARIAT	83
DEPARTMENT OF FINANCE OFFICIALS	28, 29 & 83
DIRECT SELLERS ASSOCIATION	68
DOMINION STAGES OF B.C. LTD.	75
DON'T TAX READING COALITION	42
ECONOMIC COUNCIL OF CANADA	43
ED GUTSCHE	54
EDMONTON CHAMBER OF COMMERCE	53
EDMONTON FEDERATION OF COMMUNITY LEAGUES	54
EDMONTON NORTHLAND	54
EFFEM FOODS LTD.	79
END LEGISLATED POVERTY	49
ENTERTAINMENT TAX ACTION COMMITTEE	63
EQUIPMENT LESSORS ASSOCIATION OF CANADA	68
FEDERATED CO-OPERATIVES LIMITED	53
FÉDÉRATION DES ASSOCIATIONS COOPÉRATIVES D'ÉCONOMIE FAMILIALE DU QUÉBEC	76
FÉDÉRATION NATIONALE DES ASSOCIATIONS DE CONSOMMATEURS DU QUÉBEC	80
FEDERATION OF AUTOMOBILE DEALER ASSOCIATIONS OF CANADA	75
FEDERATION OF CANADIAN MUNICIPALITIES	79
FEDERATION OF PRINCE EDWARD ISLAND MUNICIPALITIES	71
FEDERATION OF SASKATCHEWAN INDIANS	56
FISHERMEN FOOD ALLIED WORKERS' UNION	70
FRASER INSTITUTE	51
FREDERICTON CHAMBER OF COMMERCE	73
FUNERAL SERVICE ASSOCIATION OF CANADA	62
GEOFFREY B. CAPP	47
GORDON CAMPBELL, MAYOR OF VANCOUVER	51
HALIFAX BOARD OF TRADE	72
HON. ROGER DOUGLAS,	
FORMER MINISTER OF FINANCE NEW ZEALAND GOVERNMENT	60
HOTEL ASSOCIATION OF CANADA	57
HUDSON'S BAY NORTHERN STORES	57

INDEPENDENT PETROLEUM ASSOCIATION OF CANADA	54
INDIVIDUAL: L.L. ALEXANDER	54
INFORMETRICA LIMITED	32
INSTITUTE OF CANADIAN ADVERTISING	68
INSURANCE BUREAU OF CANADA	36
INUVIK CHAMBER OF COMMERCE	83
IQALUIT CHAMBER OF COMMERCE	83
JOHN DOE	54
LITTLE SALMON CARMACKS INDIAN BAND	47
LOREY HOFFMAN, PEAT MARWICK	34
MANITOBA FEDERATION OF LABOUR	58
MANITOBA TEACHERS' SOCIETY	58
McDONALD'S RESTAURANT OF CANADA LIMITED	40
METROPOLITAN MONTREAL CHAMBER OF COMMERCE	62
MINISTÈRE DES FINANCES — HAUTS FONCTIONNAIRES	28, 29 & 83
MONTREAL BOARD OF TRADE	62
MOTION PICTURE THEATRES ASSOCIATION	77
N.W.T. CHAMBER OF COMMERCE	83
N.W.T. CONSTRUCTION ASSOCIATION	83
N.W.T. COUNCIL OF FRIENDSHIP CENTRES	83
N.W.T. SENIORS' SOCIETY	83
NATIONAL ACTION COMMITTEE ON THE STATUS OF WOMEN	48
NATIONAL ANTI-POVERTY ORGANIZATION	80
NATIONAL COUNCIL OF WELFARE	34
NATIONAL FARMERS' UNION	74
NATIONAL FEDERATION OF NURSES' UNIONS	60
NATIONAL VOLUNTARY ORGANIZATIONS	35
NATIVE WOMEN'S ASSOCIATION	83
NEW BRUNSWICK CHAMBER OF COMMERCE	73
NEW BRUNSWICK ECONOMIC COUNCIL	73
NEW BRUNSWICK FEDERATION OF AGRICULTURE	73
NEW BRUNSWICK PRO-CANADA NETWORK	73

NEWFOUNDLAND AND LABRADOR BUILDING CONSTRUCTION TRADE COUNCIL	70
NEWFOUNDLAND AND LABRADOR CHAMBER OF COMMERCE	70
NEWFOUNDLAND AND LABRADOR FEDERATION OF MUNICIPALITIES	70
NEWFOUNDLAND AND LABRADOR HOME BUILDERS ASSOCIATION	70
NEWFOUNDLAND CONVENIENCE STORES ASSOCIATION	70
NOVA SCOTIA FEDERATION OF AGRICULTURE	72
NOVA SCOTIA REGISTERED MUSIC TEACHERS' ASSOCIATION	72
NOVA SCOTIA RESTAURANT AND FOODSERVICES ASSOCIATION	72
OATES ANDERSON & ASSOCIATES	52
OLD AGE PENSIONERS ORGANIZATION	51
ONE VOICE SENIORS NETWORK	40
ONTARIO FEDERATION OF AGRICULTURE	74
ONTARIO RACING & BREEDERS COUNCIL	67
P.E.I. COUNCIL OF THE ARTS	71
P.E.I. COUNCIL OF THE DISABLED	71
P.E.I. FEDERATION OF LABOUR	71
P.E.I. TRUCKERS ASSOCIATION	71
PERIODICAL MARKETERS OF CANADA	51
PORT OF HALIFAX	72
PRAIRIE POOLS INC.	56
PRINCE EDWARD ISLAND DRAFT HORSE ASSOCIATION	71
PRINCE EDWARD ISLAND POTATO MARKETING COMMISSION	71
PRIVATE SECTOR SUPPLY TO GOVERNMENT	75
PRO-CANADA NETWORK	78
PROFESSOR ROBERT CLARK, DEPARTMENT OF ECONOMICS U.B.C.	51
PROFESSOR JOHN CRISPO	45
PUBLIC SERVICE ALLIANCE OF CANADA	76
RACETRACKS OF CANADA INC.	67
REGINA CHAMBER OF COMMERCE	55
REGROUPEMENT LOISIRS QUÉBEC	61
RENTAL HOUSING COUNCIL OF BRITISH COLUMBIA	51
RESTAURANT AND FOOD SERVICES ASSOCIATION OF BRITISH COLUMBIA	50
RETAIL COUNCIL OF CANADA	44

RETAIL MERCHANTS' ASSOCIATION OF BRITISH COLUMBIA	49
SASKATCHEWAN ARTS ALLIANCE	55
SASKATCHEWAN CHAMBER OF COMMERCE	56
SASKATCHEWAN FEDERATION OF LABOUR	56
SEL-WIN CHEMICALS LTD.	52
SHERWOOD PARK AND DISTRICT CHAMBER OF COMMERCE	54
SOCIAL ACTION COMMISSION	71
SOCIAL PLANNING COUNCIL OF WINNIPEG	57
SOCIETY OF MANAGEMENT ACCOUNTANTS OF CANADA	39
SODARCAN INC.	68
SPEERS PETROCHEMICALS	57
SPORTS FEDERATION	79
ST. JOHN BOARD OF TRADE	70
ST. JOHN'S BOARD OF TRADE	73
ST. THOMAS UNIVERSITY STUDENTS UNION	73
TAX EXECUTIVES INSTITUTE INC.	43
TAXPAYERS' COUNCIL ON NATIONAL ISSUES	72
TOURISM INDUSTRY ASSOCIATION (YUKON)	47
TOURISM INDUSTRY ASSOCIATION OF THE N.W.T.	83
TOURISM INDUSTRY OF CANADA	44
TOURISM INDUSTRY OF NOVA SCOTIA	72
TOURISM INDUSTRY OF PRINCE EDWARD ISLAND	71
TOURISM ONTARIO INC.	78
TRUST COMPANIES ASSOCIATION OF CANADA	36
UNIFARM	54
UNION DES MUNICIPALITÉS DU QUÉBEC	79
UNION OF NORTHERN WORKERS	83
UNITED CHURCH OF CANADA	76
UNITED FISHERMEN AND ALLIED WORKERS UNION	52
UNITED STEELWORKERS OF AMERICA	59
UNIVERSITY OF TORONTO POLICY ANALYSIS	32
URBAN DEVELOPMENT INSTITUTE (CANADA)	50
VANCOUVER BOARD OF TRADE	49
VANCOUVER HOTEL ASSOCIATION	49

VANCOUVER TAXI CAB OWNERS ASSOCIATION	50
VICTORIA VISUAL ARTS ADVOCACY	49
VOLUNTARY PLANNING BOARD OF NOVA SCOTIA	72
WEALL AND CULLEN NURSERIES LTD.	78
WESTERN BARLEY GROWERS ASSOCIATION	54
WESTERN CANADIAN WHEAT GROWERS	55
WHITEHORSE CHAMBER OF COMMERCE	47
WILSON BANWELL AND ASSOCIATES	50
WINNIPEG CHAMBER OF COMMERCE	57
WOLFE GOODMAN, Q.C.	31
YELLOWKNIFE CHAMBER OF COMMERCE	83
YUKON ASSOCIATION FOR COMMUNITY LIVING	47
YUKON CHAMBER OF MINES	47
YUKON CHILD CARE ASSOCIATION	47
YUKON FEDERATION OF LABOUR	47

LIST OF BRIEFS, LETTERS AND SUBMISSIONS

The Committee regrets that it was unable to receive more witnesses. The following is a list of briefs, letters and submissions to the Committee from organizations and individuals from whom the Committee could not receive personal testimony.

ORGANIZATIONS

ADAMOVICZ, L.

ADVOCACY RESOURCE CENTRE FOR THE HANDICAPPED

AHRONHEIM, GERALD A.

AIR B.C.

AIR TRANSPORT ASSOCIATION OF CANADA

ALBERTA ASSOCIATION OF SOCIAL WORKERS

ALBERTA CATTLE COMMISSION

ALBERTA FEDERATION OF LABOUR

ALBERTA LAW FOUNDATION

ALBERTA NEW DEMOCRAT CAUCUS

ALBERTA SHUFFLEBOARDS (1986) INC.

ALBERTA WEEKLY NEWSPAPERS ASSOCIATION

ALEXANDER, DAVID

ALEXANDER, L.L.

ALFRED DALLAIRE INC.

ALLIANCE OF CANADIAN CINEMA, TELEVISION AND RADIO ARTISTS (ACTRA)

ALLIANCE OF CANADIAN TRAVEL ASSOCIATIONS

ALTERNATIVE HOME MARKETING TEAM INC.

ALTIMAS, ANNA & JOHN

AMERICAN FEDERATION OF MUSICIANS OF THE UNITED STATES AND CANADA

ANCTIL, NORMAN J.

ANPROP INVESTMENTS INC.

ANSPACH, R. CAMERON

ANTIQUARIAN BOOKSELLERS' ASSOCIATION OF CANADA

ART GALLERY OF GREATER VICTORIA

ARTHUR, M.D.

ASSEMBLY OF FIRST NATIONS

ASSOCIATION DES CAMPS DU QUÉBEC

ASSOCIATION DE LA CONSTRUCTION DU QUÉBEC

ASSOCIATION DES CENTRES HOSPITALIERS ET DES CENTRES D'ACCUEIL
PRIVÉS DU QUÉBEC INC.

ASSOCIATION DES ÉDITEURS

ASSOCIATION DES ÉDITEURS DE LA PRESSE HEDBOMADAIRE RÉGIONALE
FRANCOPHONE

ASSOCIATION DES ÉDITEURS ET DE LA SOCIÉTÉ DES ÉDITEURS DE MANUELS
SCOLAIRES DU QUÉBEC

ASSOCIATION DES PROFESSEURS DE MUSIQUE DU QUÉBEC INC.

ASSOCIATION OF AMERICAN PUBLISHERS INC.

ASSOCIATION OF CANADIAN BISCUIT MANUFACTURERS

ASSOCIATION OF CANADIAN DISTILLERS

ASSOCIATION OF CANADIAN INSURERS

ASSOCIATION OF CANADIAN ORCHESTRAS

ASSOCIATION OF CANADIAN REAL ESTATE SYNDICATORS INC.

ASSOCIATION OF CONSULTING ENGINEERS OF CANADA

ASSOCIATION OF KINSMEN AND KINETTE CLUBS

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

ASSOCIATION OF NEWFOUNDLAND PSYCHOLOGISTS

ASSOCIATION OF ONTARIO MOTELS, MOTOR INNS, AND MOTOR HOTELS

ASSOCIATION OF PSYCHOLOGISTS OF NOVA SCOTIA

ASSOCIATION OF REGISTERED INTERIOR DESIGNERS OF ONTARIO

ASSOCIATION OF UNIVERSITIES AND COLLEGES OF CANADA

ASSOCIATION OF YUKON COMMUNITIES

ASSOCIATION PROFESSIONNEL DES STÉNOGRAPHES JUDICIAIRES ET
OFFICIELS DU QUÉBEC

ASSOCIATION PROVINCIALE DES CONSTRUCTEURS D'HABITATIONS DU QUÉBEC

ATLANTIC BUILDING SUPPLY DEALERS ASSOCIATION

ATLANTIC MUNICIPAL PURCHASING ASSOCIATION

ATLANTIC PROVINCES FEDERATION OF LABOUR

ATLANTIC PROVINCES TRANSPORTATION COMMISSION

ATLAS TOURS LTD.

ATMOSPHERIC DYNAMICS CORPORATION

ATTRACTIONS ONTARIO

AUTOMOTIVE INDUSTRIES ASSOCIATION OF CANADA

AVON CANADA INC.

AXA INSURANCE GROUP OF CANADA

BABIJ AND SLADE CHARTERED ACCOUNTANTS
BAFFIN REGIONAL CHAMBER OF COMMERCE
BAGNELL'S LAUNDERERS AND CLEANERS LIMITED
BAILLARGEON, MARIE CLAIRE
BAIN, DAVID B.
BAKERY COUNCIL OF CANADA
BANFF WORKERS FOR IMPROVED CONDITIONS
BANK STREET PROMENADE
BANKS, BONNIE
BARZA, SUSAN
BASEBALL NOVA SCOTIA
BEAULIEU, GUY P.
BEAUVAIS, M.
BECKETT, W.T.
BEDNARCZYK, GEORGE S.
BELLEROSE, S.
BELFORT REALTIES INC.
BERNSTEIN, R. PETER
BERRY, SUSAN
BERTOIA, CARL
BERWICK INVESTMENTS LTD. - BERWICK HOUSE
BETHANY LIFELINE
BISAILLON, GUY
BLAMAUER, M.F.
BLAUER, FRIDELL AND COMPANY CHARTERED ACCOUNTANTS
BLISKE, SHIRLEY
BLUMENTHAL, TYA
BOAKE, W.R.
BOARD OF TRADE OF METROPOLITAN TORONTO
BOLSTER, STUART
BOOK SHELF OF GUELPH LIMITED
BOUDREAU, MRS.
BOULANGERIE JEAN-CLAUDE FORTIN INC.
BOWLING PROPRIETORS' ASSOCIATION OF BRITISH COLUMBIA
BOWLING PROPRIETORS' ASSOCIATION OF CANADA

BOWLING PROPRIETORS' ASSOCIATION OF MANITOBA
 BOWLING PROPRIETORS' ASSOCIATION OF NORTHERN ONTARIO
 BOWLING PROPRIETORS' ASSOCIATION OF ONTARIO
 BOWLING PROPRIETORS' ASSOCIATION OF SASKATCHEWAN
 BOYD DENROCHE, BARRISTERS, SOLICITORS, NOTARIES
 BRAWLEY, JOSEPH V.
 BREWER, CLIFFORD J.
 BREWERS ASSOCIATION OF CANADA
 BRIAN HULL AND ASSOCIATES
 BRISSON, L.
 BRISTOL PLACE HOTEL
 BRITISH COLUMBIA AND YUKON HOTELS' ASSOCIATION
 BRITISH COLUMBIA ASSOCIATION OF PRIVATE CARE
 BRITISH COLUMBIA ASSOCIATION OF SOCIAL WORKERS
 BRITISH COLUMBIA ASSOCIATION OF SPEECH/LANGUAGE PATHOLOGISTS
 AND AUDIOLOGISTS
 BRITISH COLUMBIA CHAMBER OF COMMERCE
 BRITISH COLUMBIA FEDERATION OF LABOUR
 BRITISH COLUMBIA LIBRARY ASSOCIATION
 BRITISH COLUMBIA MEDICAL ASSOCIATION
 BRITISH COLUMBIA MOTELS, CAMPGROUNDS, RESORTS ASSOCIATION
 BRITISH COLUMBIA MOTION PICTURE ASSOCIATION
 BRITISH COLUMBIA PROVINCIAL COUNCIL OF CARPENTERS
 BRITISH COLUMBIA PSYCHOLOGICAL ASSOCIATION
 BRITISH COLUMBIA REAL ESTATE ASSOCIATION
 BRITISH COLUMBIA REGISTERED MUSIC TEACHERS' ASSOCIATION
 BRITISH COLUMBIA VETERINARY MEDICAL ASSOCIATION
 BROOKER, BARRY H.
 BROSSARD WOMEN'S GROUP
 BROWN, CHARLES K.
 BROWN RIGGS AND DONEN, CHARTERED ACCOUNTANTS
 BRYDON, JAMES
 BUCH, MARY I.
 BUFFEY, JOAN
 BUILDING AND CONSTRUCTION TRADES DEPARTMENT AFL-CIO

BUILDING OWNERS AND MANAGERS ASSOCIATION BRITISH COLUMBIA
BUILDING SYSTEMS DESIGN LIMITED
BUREAU DE COMMERCE DE MONTRÉAL
BUSINESS ASSOCIATION OF NEWFOUNDLAND AND LABRADOR
BUSINESS COUNCIL ON NATIONAL ISSUES
BUTLER, G.
BYERS, JOHN
C.H. DOUGLAS SOCIAL CREDIT
CABLEPROJECT RMB LTD.
CADRAIN, PENNY
CALGARY CHAMBER OF COMMERCE
CALGARY TENT AND AWNING LTD.
CAMBRIAN BOWLING LANES
CANADA COUNCIL
CANADIAN ACTORS' EQUITY ASSOCIATION
CANADIAN ADVANCED TECHNOLOGY ASSOCIATION
CANADIAN APPLIANCE MANUFACTURERS ASSOCIATION
CANADIAN ART MUSEUMS DIRECTOR ORGANIZATION
CANADIAN ARTISTS' REPRESENTATION
CANADIAN ASSOCIATION FOR UNIVERSITY CONTINUING EDUCATION
CANADIAN ASSOCIATION OF BROADCASTERS
CANADIAN ASSOCIATION OF DATA AND PROFESSIONAL SERVICE
ORGANIZATIONS
CANADIAN ASSOCIATION OF JAPANESE AUTOMOBILE DEALERS
CANADIAN ASSOCIATION OF NUMISMATIC DEALERS
CANADIAN ASSOCIATION OF OPTOMETRISTS
CANADIAN ASSOCIATION OF SMELTER AND ALLIED WORKERS, LOCAL NO. 4
CANADIAN ASSOCIATION OF SPEECH-LANGUAGE PATHOLOGISTS AND
AUDIOLOGISTS
CANADIAN ASSOCIATION OF UNIVERSITY TEACHERS
CANADIAN ASSOCIATION OF WOMEN EXECUTIVES AND ENTREPRENEURS
CANADIAN AUTOMOBILE ASSOCIATION
CANADIAN AUTOMOTIVE LEASING ASSOCIATION
CANADIAN BANKERS' ASSOCIATION
CANADIAN BAR ASSOCIATION
CANADIAN BUSINESS PRESS

CANADIAN CAR WASH ASSOCIATION
CANADIAN CARPET INSTITUTE
CANADIAN CHAMBER OF COMMERCE
CANADIAN CHEMICAL PRODUCERS ASSOCIATION
CANADIAN CO-OPERATIVE CREDIT SOCIETY
CANADIAN CO-OPERATIVE HOUSING MOVEMENT
CANADIAN COMMUNITY NEWSPAPERS ASSOCIATION
CANADIAN CONFERENCE OF THE ARTS
CANADIAN CONSTRUCTION ASSOCIATION
CANADIAN COUNCIL OF GROCERY DISTRIBUTORS
CANADIAN COUNCIL ON SOCIAL DEVELOPMENT
CANADIAN CRAFTS COUNCIL
CANADIAN DAILY NEWSPAPER PUBLISHERS ASSOCIATION
CANADIAN DEHYDRATORS ASSOCIATION
CANADIAN ELECTRICAL DISTRIBUTORS ASSOCIATION
CANADIAN EXPORTERS' ASSOCIATION
CANADIAN FARM AND INDUSTRIAL EQUIPMENT INSTITUTE
CANADIAN FEDERATION OF AGRICULTURE
CANADIAN FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN'S CLUBS
CANADIAN FEDERATION OF FARM EQUIPMENT DEALERS ASSOCIATION
CANADIAN FEDERATION OF INDEPENDENT GROCERS
CANADIAN FEDERATION OF INDEPENDENT BUSINESS
CANADIAN FEDERATION OF LABOUR
CANADIAN FEDERATION OF STUDENTS
CANADIAN FEDERATION OF UNIVERSITY WOMEN
CANADIAN FEED INDUSTRY ASSOCIATION
CANADIAN FEED INDUSTRY ASSOCIATION (SASKATCHEWAN DIVISION)
CANADIAN FIGURE SKATING ASSOCIATION
CANADIAN FIGURE SKATING ASSOCIATION (SASKATCHEWAN DIVISION)
CANADIAN GAS ASSOCIATION
CANADIAN GIFT AND TABLEWARE ASSOCIATION
CANADIAN HARDWARE AND HOUSEWARES MANUFACTURERS ASSOCIATION
CANADIAN HOME BUILDERS' ASSOCIATION
CANADIAN HORSE COUNCIL
CANADIAN HOSPITAL ASSOCIATION

CANADIAN HOUSING AND RENEWAL ASSOCIATION
CANADIAN INDEPENDENT ADJUSTERS' ASSOCIATION
CANADIAN INSOLVENCY ASSOCIATION
CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS
CANADIAN INSTITUTE OF PLUMBING AND HEATING
CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES
CANADIAN JEWELLERS ASSOCIATION
CANADIAN JEWISH CONGRESS
CANADIAN LABOUR CONGRESS
CANADIAN LIBRARY ASSOCIATION
CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION INC.
CANADIAN MAGAZINE PUBLISHERS ASSOCIATION
CANADIAN MANUFACTURERS' ASSOCIATION
CANADIAN MEAT COUNCIL
CANADIAN MEDICAL ASSOCIATION
CANADIAN MOTION PICTURE DISTRIBUTORS ASSOCIATION
CANADIAN MUSEUMS ASSOCIATION
CANADIAN NATIONAL INSTITUTE FOR THE BLIND
CANADIAN NURSES ASSOCIATION
CANADIAN OPERA COMPANY
CANADIAN ORGANIZATION OF SMALL BUSINESS INC.
CANADIAN PARAPLEGIC ASSOCIATION
CANADIAN PARAPLEGIC ASSOCIATION (NEWFOUNDLAND DIVISION)
CANADIAN PARAPLEGIC ASSOCIATION (PRINCE EDWARD ISLAND)
CANADIAN PETROLEUM PRODUCTS INSTITUTE
CANADIAN PRESTRESSED CONCRETE INSTITUTE
CANADIAN PSYCHOLOGICAL ASSOCIATION
CANADIAN REAL ESTATE ASSOCIATION
CANADIAN REGISTER OF HEALTH SERVICE PROVIDERS IN PSYCHOLOGY
CANADIAN RESEARCH COMMITTEE ON TAXATION
CANADIAN RESTAURANT AND FOODSERVICES ASSOCIATION
CANADIAN RETAIL HARDWARE ASSOCIATION
CANADIAN SENIORS HOUSING GROUP
CANADIAN SKI AREA OPERATOR'S ASSOCIATION
CANADIAN SKI COUNCIL

CANADIAN SOCIETY OF ASSOCIATION EXECUTIVES
CANADIAN SOFT DRINK ASSOCIATION
CANADIAN SPORT AND FITNESS ADMINISTRATION CENTRE INC.
CANADIAN STAMP DEALERS' ASSOCIATION
CANADIAN TEACHERS' FEDERATION
CANADIAN TRUCK TRAILER MANUFACTURERS ASSOCIATION
CANADIAN TRUCKING ASSOCIATION
CANADIAN VETERINARY MEDICAL ASSOCIATION
CANADIAN WINE INSTITUTE
CANADIANS FOR GREATER GOVERNMENT ACCOUNTABILITY
CANAVAN'S INSURANCE APPRAISAL LIMITED
CANES, MOIRA
CAPP, GEOFFREY B.
CAPS NURSING SERVICE
CARLTON INTERNATIONAL HOTELS AND RESORTS
CAROL-WABUSH DISTRIBUTING CO. LTD.
CARRIER, JACQUES
CARROLL, DOUGLAS A.
CASTENDYK, J.R.
CEBULSKI, LARRY
CENTURION FARMS LTD.
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CHAMBRE DE COMMERCE DU MONTRÉAL MÉTROPOLITAIN
CHAMPAGNE-AISHIHIK INDIAN BAND
CHAPLEY, IRVING W.
CHARETTE, GERARD P.
CHARLOTTETOWN DRIVING PARK AND PROVINCIAL EXHIBITION ASSOCIATION
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CHENEVERT, ROBERT GUY
CHESTER, AMELIA
CHEVRON CANADA LTD.
CHINESE-CANADIAN ASSOCIATION
CHRISTMAS TREE COUNCIL OF NOVA SCOTIA
CHURCH AND DWIGHT LTD.
CITY OF EDMONTON

CITY OF TORONTO
CITY OF VANCOUVER
CITY OF WHITEHORSE
CITY OF YELLOWKNIFE
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CLARKSON, GORDON
CLARKSON GORDON CHARTERED ACCOUNTANTS
CLAY, G.F.
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CO-OPERATIVE HOUSING FOUNDATION OF CANADA
CO-OPERATORS GROUP LTD.
COAL ASSOCIATION OF CANADA
COALITION AGAINST FREE TRADE
COALITION DES AÎNÉS DU QUÉBEC
COALITION FOR EQUALITY
COALITION OF CANADIAN TRANSPORT ASSOCIATIONS AND CARRIERS
COALITION OF PROVINCIAL ORGANIZATIONS OF THE HANDICAPPED
COHEN, SHIRLEY
COLLEGE OF FAMILY PHYSICIANS OF CANADA, ONTARIO CHAPTER
COLLEGE OF PSYCHOLOGISTS OF NEW BRUNSWICK
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COLVIN, JOYCE I.
COMERFORD, W.J.
COMMERCIAL TRAVELLERS' ASSOCIATION OF CANADA
COMMITTEE CONCERNED ABOUT THE CONVENTION INDUSTRY
COMMITTEE ON MONETARY AND ECONOMIC REFORM
CONFECTIONARY MANUFACTURERS ASSOCIATION OF CANADA
CONFÉDÉRATION DES CAISSES POPULAIRES ET D'ÉCONOMIE DESJARDINS
DU QUÉBEC
CONFEDERATION OF CANADIAN UNIONS
CONFEDERATION OF NATIONAL TRADE UNIONS
CONFERENCE BOARD OF CANADA
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CONNOR, KIRSTEN F.
CONSEIL QUÉBÉCOIS DU THÉÂTRE

CONSERVATORY GROUP
CONSTRUCTION ASSOCIATION OF PRINCE EDWARD ISLAND
CONSUMER AID SERVICES
CONSUMERS' ASSOCIATION OF CANADA
CONSUMERS' ASSOCIATION OF CANADA, NORTHWEST TERRITORIES DIVISION
CONWAY, GEOFF
COOPERS & LYBRAND
CORBER, J.W.
CORNWALL, ANDREW
CORNWALL, ANNE
CORPORATION DU GROUPE LA LAURENTIENNE
CORPORATION PROFESSIONNELLE DES PSYCHOLOGUES DU QUÉBEC
CORPORATION SPORTS QUÉBEC
COSMETOLOGIST ASSOCIATION OF SASKATCHEWAN
CÔTÉ, GERARD E.
COUNCIL OF CANADIANS
COUNCIL OF FOREST INDUSTRIES OF BRITISH COLUMBIA
COUNCIL OF PROVINCIAL ASSOCIATIONS OF PSYCHOLOGISTS
COUNCIL OF YUKON INDIANS
COUNCIL ON AGING
CRAWFORD AND COMPANY INSURANCE ADJUSTERS LTD.
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CRISPO, PROFESSOR JOHN
CRIST, WILLIAM B.
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DAIGNEAULT, PAULINE
DANIELS DEVELOPMENT CORPORATION
DAVIES, DERWYN
DAVINE, MEL
DAVIS, CHARLES A.
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DE JARDIN, ALAN
DEACON, BILL

DELISLE COURT PROFESSIONAL CENTRE
DEMERS, TÉLESPHORE
DENE-METIS NEGOTIATIONS SECRETARIAT
DENIS WALSH & ASSOCIATE LTD.
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DICKY, DOLORES
DINSDALE, JEFFREY
DIRECT SELLERS ASSOCIATION
DOE, JOHN
DOMINGUE, JOSEPH N.
DOMINION STAGES OF BRITISH COLOMBIA LIMITED
DON'T TAX READING COALITION
DONALD, LILLIAN
DOUGLAS R. DENMORE CONSULTING INC.
DOUGLAS, THE HON. ROGER, FORMER MINISTER OF FINANCE, NEW ZEALAND
DREDGE, LORNA
DROK, IAN
DUBECKI, P.J.
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DUNWOODY AND COMPANY - CHARTERED ACCOUNTANTS
DURRANT, BRUCE G.
DYER, SHARON
ECONOMIC AND BUSINESS ISSUES
ECONOMIC COUNCIL OF CANADA
ECONOMIC DEVELOPMENT CORPORATION OF OSOYOOS AND AREA
ÉDITEURS DE PÉRIODIQUES DU QUÉBEC
EDMISTON, W.A.
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EDMONTON CHAMBER OF COMMERCE
EDMONTON FEDERATION OF COMMUNITY LEAGUES
EDMONTON NORTHLANDS
EFFEM FOODS LIMITED
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ELBOW VALLEY CYCLE CLUB

ELECTRICAL AND ELECTRONIC MANUFACTURERS ASSOCIATION OF CANADA
ELLIOT, J.J.
ELSENBERG, STEPHEN M.
END LEGISLATED POVERTY
ENTERTAINMENT TAX ACTION COMMITTEE
EQUIPMENT LESSORS ASSOCIATION OF CANADA
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ETHIER, RONALD AND PEGGY
EURO BROKERS CANADA LTD.
EXPOS MONTREAL BASEBALL CLUB LTD.
FAIRFAX FINANCIAL HOLDINGS LTD.
FAVRETTO, A.L.
FAYOLLE, ROGER
FEDDINGTON LIMITED
FEDERAL SUPERANNUATES NATIONAL ASSOCIATION
FEDERATED CO-OPERATIVES LTD.
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FÉDÉRATION DES ASSOCIATIONS COOPÉRATIVES D'ÉCONOMIE FAMILIALE DU
QUÉBEC (ACEF)
FÉDÉRATION DES CÉGEPs
FÉDÉRATION DES DAMES D'ACADIE INC.
FÉDÉRATION NATIONALE DES ASSOCIATIONS DE CONSOMMATEURS DU
QUÉBEC
FEDERATION OF AUTOMOBILE DEALER ASSOCIATIONS OF CANADA
FEDERATION OF CANADIAN MUNICIPALITIES
FEDERATION OF INDEPENDENT SCHOOLS OF CANADA
FEDERATION OF PRINCE EDWARD ISLAND MUNICIPALITIES
FEDERATION OF SASKATCHEWAN INDIAN NATIONS
FEUILLET, J.M.
FINANCE CRITIC OF THE NOVA SCOTIA LIBERAL CAUCUS
FIREMAN'S FUND
FIRST BAPTIST CHURCH
FISHERMEN FOOD & ALLIED WORKERS' UNION
FITZGERALD, LISE
FLYNN, F.G.
FOOD BANK

FORBES, G.S.
FORD, BRENDA J.
FORD, WILLIAM H.
FORTIN, PHILIP
FORUM DES CITOYENS AGÉS DE MONTRÉAL INC.
FOUR SEASONS HOTELS
FOX, R.
FRASER AND BEATTY
FRASER INSTITUTE
FRASER VALLEY INDEPENDENT SHAKE & SHINGLE PRODUCERS ASSOCIATION
FREDERICTON CHAMBER OF COMMERCE
FRIEDMAN, ANDY
FUND RAISING CONSULTANTS INC.
FUNERAL SERVICE ASSOCIATION OF CANADA
FUR COUNCIL OF CANADA
GADON, MICHAEL C.
GAGNÉ, MARTIN
GATEWAY STATUS OF WOMEN COUNCIL
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GEROW, GRANT
GESTION DEVTEL MANAGEMENT INC.
GIRL GUIDES OF CANADA
GLASSMAN, EDWARD J.
GODDARD, WILLIAM R.
GOEBEL, ALLAN
GOLDBERG, J.
GOLDEN AGE ASSOCIATION
GOLDEN, JUDITH
GONSALVES, LOUIS
GOODFELLOW INC.
GOODMAN AND CARR
GOODMAN, WOLFE D.

GOVERNMENT OF THE NORTHWEST TERRITORIES
GOVERNMENT OF YUKON
GOW, JAMES D.
GRAY, N.
GREATER VANCOUVER LIBERTARIAN ASSOCIATION
GREENE, DONALD F.
GRINDSTEAD, BERNIE
GROUP HEALTH CENTRE
GRUSON, LINDA M.
GUSELLA, J.
GUTBRODT, ERIKA
GUTSCHE, ED
GYRA, DR. JOHN C.
HADDEN, ELEANOR
HADDOW, YVETTE
HAGGERTY, M.B.
HALIBURTON FIGURE SKATING
HALIFAX BOARD OF TRADE
HAMBLEY, JANICE M.
HAMBLEY, W.D.
HAMILTON, WILLIAM
HARRIS, PITCHER, KENNEDY, RYAN, CHARTERED ACCOUNTANTS
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HAYEK, ALBERT
HEAD INJURY ASSOCIATION OF DURHAM REGION
HEALE, NANCY
HEATHER'S HERITAGE HAVEN
HELWIG, DR. C. VINCENT
HEMMING, TIMOTHY C.S.
HERON, GEORGE
HILCHEY, GRACE
HILTON INTERNATIONAL TORONTO
HINDS, GERALD E.
HOFFMAN, L.A.
HOLIDAY INN TORONTO AIRPORT

HOTEL ASSOCIATION OF CANADA INC.
HOTEL SELBY
HOUGH, C.
HUDSON'S BAY NORTHERN STORES INC.
ILLES, S.
INDEPENDENT PETROLEUM ASSOCIATION OF CANADA
INFORMATION TECHNOLOGY ASSOCIATION OF CANADA
INFORMETRICA LIMITED
INSTITUTE OF CANADIAN ADVERTISING
INSTITUTE OF CHARTERED ACCOUNTANTS OF NEWFOUNDLAND
INSTITUTE OF CHARTERED ACCOUNTANTS OF THE NORTHWEST TERRITORIES
INSURANCE BUREAU OF CANADA
INTERNATIONAL BROKER ASSOCIATION OF CANADA
INTERNATIONAL CARE CORPORATION
INUVIK CHAMBER OF COMMERCE
IQALUIT CHAMBER OF COMMERCE
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KAPLAN, RONALD D.
KAPROWY, E.A.
KARAL, MONICA
KAY BROWN ENTERPRISES INC.
KAY, HOWARD
KEATING, ARTHUR
KELEHER, GARY R.
KEMP, MARIAN
KEN WILSON AIRCRAFT SALES LTD.
KENWORTHY, ALAN
KEOGH, ANN
KERBEL GROUP
KILGOUR, DAVID
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KLESS, KENNETH
KODAK CANADA INC.
KOWALCHUK, THEODORE
KUMAR, N.

KUSHNIR, C.
LADANYI, OTTO C.
LAFLAMME, FERNAND
LARRY KEEN RESTAURANT GROUP
LAWSON ADJUSTMENT SERVICES (1984) LIMITED
LEISURE BATHS LTD.
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LEPAGE, ARTHUR E.
LEVIN, SANFORD
LEVINE, E.
LIBERAL PARTY OF MANITOBA
LIFE UNDERWRITERS ASSOCIATION OF CANADA
LIFELINE SYSTEMS (CANADA) INC.
LITTLE SALMON CARMACKS INDIAN BAND
LUMBER AND BUILDING MATERIALS ASSOCIATION OF ONTARIO INC.
LUTHERAN SUNSET HOME OF SASKATOON INC.
MACARTHUR, CREEL
MACINTOSH, JOSEPHINE
MACLEAN HUNTER
MACLEAN, DOUG & MARY LYNN
MACNEILL, JOHN A.
MAGAZINE PUBLISHERS OF AMERICA, INC.
MAIN, CARMEN
MANITOBA FEDERATION OF LABOUR
MANITOBA LAW FOUNDATION
MANITOBA LIBERAL CAUCUS
MANITOBA PSYCHOLOGICAL SOCIETY
MANITOBA REGISTERED MUSIC TEACHERS ASSOCIATION
MANITOBA RESTAURANT AND FOOD SERVICES
MANITOBA SOCIETY OF SENIORS INC.
MANITOBA TEACHERS' SOCIETY
MANITOBA VETERINARY MEDICAL ASSOCIATION
MANUGE, ELIZABETH
MARATHON FORD SALES LTD.
MARCHANT GROUP

MARTIN, PAUL
MATHIEU, ROGER
McDONOUGH, ALEXA - NEW DEMOCRATIC PARTY OF NOVA SCOTIA
McDONALD'S RESTAURANTS OF CANADA LIMITED
McGOVERN, WAND H.
McINTYRE, CATHERINE
McINTYRE, DAVID
McMASTER STUDENTS UNION
McMULLIN, BETTY
MEDING, HEIDEMARIE
MERSON, BEN
METRO FAMILY COUNSELLING
METROPOLITAN TORONTO AND REGION CONSERVATION AUTHORITY METRO
UNITED WAY
MIKE'S (ST-SAUVEUR)
MILLER, RICKEY S.
MINING ASSOCIATION OF BRITISH COLUMBIA
MINING ASSOCIATION OF CANADA
MISSISSAUGA POLICY ADVISORS ASSOCIATION
MITCHELL WAECHTER, IRENE
MOFFAT INN, NIAGARA-ON-THE-LAKE
MOLLENHAUER HOLDINGS CORPORATION
MONTGOMERY, M.E.
MONTGOMERY, RHODA
MORAIS, BEVERLY
MORDEN & HELWIG GROUP INC.
MORIN, GERTRUDE
MOTION PICTURE ASSOCIATION OF AMERICA INC.
MOTION PICTURE THEATRE ASSOCIATION OF AMERICA, INC.
MOTION PICTURE THEATRES ASSOCIATION OF CANADA
MOUNT SAINT JOSEPH HOSPITAL
MOUNT SINAI HOSPITAL
MUNICIPAL ELECTRIC ASSOCIATION
MUSIC FOR YOUNG CHILDREN
MYERS, CARL

NANAIMO CITY CENTRE ASSOCIATION
 NATIONAL ACTION COMMITTEE ON THE STATUS OF WOMEN
 NATIONAL ANTI-POVERTY ORGANIZATION
 NATIONAL ASSOCIATION OF FRIENDSHIP CENTRES
 NATIONAL ASSOCIATION OF TOBACCO AND CONFECTIONERY DISTRIBUTORS
 NATIONAL ASSOCIATION OF WOMEN AND THE LAW
 NATIONAL BALLET OF CANADA
 NATIONAL COUNCIL OF WELFARE
 NATIONAL FARMERS' UNION
 NATIONAL FEDERATION OF NURSES' UNIONS
 NATIONAL FLOOR COVERING ASSOCIATION
 NATIONAL VOLUNTARY ORGANIZATIONS
 NATIVE WOMEN'S ASSOCIATION OF THE NORTHWEST TERRITORIES
 NELSON, ANTHONY B.
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 NEW BRUNSWICK ECONOMIC COUNCIL
 NEW BRUNSWICK FEDERATION OF AGRICULTURE
 NEW BRUNSWICK NEW DEMOCRATIC PARTY
 NEW BRUNSWICK PRO-CANADA NETWORK
 NEW DEMOCRAT PARTY OF NEWFOUNDLAND AND LABRADOR
 NEW POPULIST PARTY OF BRITISH COLUMBIA
 NEWBERRY, ROGER
 NEWFOUNDLAND AND LABRADOR BUILDING CONSTRUCTION TRADE COUNCIL
 NEWFOUNDLAND AND LABRADOR CHAMBER OF COMMERCE
 NEWFOUNDLAND AND LABRADOR FEDERATION OF MUNICIPALITIES
 NEWFOUNDLAND REGISTERED MUSIC TEACHERS' ASSOCIATION
 NEWFOUNDLAND AND LABRADOR HOME BUILDERS ASSOCIATION
 NEWFOUNDLAND CONVENIENCE STORES ASSOCIATION
 NEWFOUNDLAND SYMPHONY ORCHESTRA
 NICKERSON, MICHAEL
 NIXON, DEBORAH
 NOAKES, THERESA
 NORRIE, GEORGE C.
 NORTHERN CLAIMS SERVICES LIMITED
 NORTHWEST TERRITORIES ASSOCIATION OF MUNICIPALITIES

NORTHWEST TERRITORIES CHAMBER OF COMMERCE
NORTHWEST TERRITORIES CHAMBER OF MINES
NORTHWEST TERRITORIES CONSTRUCTION ASSOCIATION
NORTHWEST TERRITORIES COUNCIL OF FRIENDSHIP CENTRES
NORTHWEST TERRITORIES FEDERATION OF LABOUR
NORTHWEST TERRITORIES SENIORS' SOCIETY
NORTHWOOD HOMECARE LIMITED
NORTON, DIANE
NOVA SCOTIA CHAMBER OF COMMERCE
NOVA SCOTIA FEDERATION OF AGRICULTURE
NOVA SCOTIA LIBERAL CAUCUS
NOVA SCOTIA NEW DEMOCRATIC PARTY
NOVA SCOTIA REGISTERED MUSIC TEACHERS' ASSOCIATION
NOVA SCOTIA RESTAURANT AND FOODSERVICES ASSOCIATION
NOVA SCOTIA SOCIETY OF OCCUPATIONAL THERAPISTS
NOVA SCOTIA VOLUNTARY PLANNING
NOWLAN, DAVID M.
NURSES ASSOCIATION OF NEW BRUNSWICK
O'NEILL, CHRIS
OAK BAY MARINE GROUP
OAKVILLE CHAMBER OF COMMERCE
OATES ANDERSON & ASSOCIATES
OLD AGE PENSIONERS ORGANIZATION
OLENIUK, J.
ONE VOICE SENIORS NETWORK
ONTARIO ASSOCIATION FOR COMMUNITY LIVING
ONTARIO ASSOCIATION OF LANDSCAPE ARCHITECTS
ONTARIO ASSOCIATION OF PROFESSIONAL SOCIAL WORKERS
ONTARIO ASSOCIATION OF SPEECH-LANGUAGE PATHOLOGISTS AND
AUDIOLOGISTS
ONTARIO BASEBALL ASSOCIATION
ONTARIO CHINESE RESTAURANT ASSOCIATION
ONTARIO COALITION OF SENIOR CITIZENS' ORGANIZATIONS
ONTARIO COFFEE SERVICE ASSOCIATION
ONTARIO FEDERATION OF AGRICULTURE

ONTARIO FEDERATION OF LABOUR
ONTARIO GRAIN & FEED DEALERS ASSOCIATION
ONTARIO GYMNASTIC FEDERATION
ONTARIO MOTOR COACH ASSOCIATION
ONTARIO PSYCHOLOGICAL ASSOCIATION
ONTARIO RACING AND BREEDERS COUNCIL
ONTARIO VETERINARY ASSOCIATION
OTTAWA ACADEMY OF PSYCHOLOGY
OTTO, JACOB
OUELLETTE, EILEEN
PADBER, MAX N.
PAMPLIN, R.E.
PARADIS, GEORGES
PARISH, W.A.
PARSONS, ROBERT V.
PATRICK, JANE
PAUKER, JEROME D.
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PERIODICAL WRITERS ASSOCIATION OF CANADA
PERRONI, VIC
PETERS, JOE
PETERS-LIEBHART, MARA
PHILLIPS, MICHAEL M.
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PLAMONDON, R.
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POITRAS, LORRAINE
POMEROY, EDWARD
POND, JAMES
PORT OF HALIFAX
POTTER'S JEWELLERS LIMITED
POULIOT, ANN
POUNDEN, MR. & MRS. H.
POWIS, CHARLES

PRAIRIE POOLS INC.
PRATT, J.
PRESTIGE ATHLETIC CLUBS
PRIEBE, KLAUS H.
PRINCE EDWARD ISLAND ADVISORY COUNCIL ON THE STATUS OF WOMEN
PRINCE EDWARD ISLAND COUNCIL OF LABOUR
PRINCE EDWARD ISLAND COUNCIL OF THE ARTS
PRINCE EDWARD ISLAND COUNCIL OF THE DISABLED
PRINCE EDWARD ISLAND DEPARTMENT OF AGRICULTURE
PRINCE EDWARD ISLAND DRAFT HORSE ASSOCIATION
PRINCE EDWARD ISLAND FEDERATION OF AGRICULTURE
PRINCE EDWARD ISLAND FEDERATION OF LABOUR
PRINCE EDWARD ISLAND FEDERATION OF MUNICIPALITIES
PRINCE EDWARD ISLAND POTATO MARKETING COMMISSION
PRINCE EDWARD ISLAND PRO CANADA NETWORK
PRINCE EDWARD ISLAND RESTAURANT AND FOOD SERVICE ASSOCIATION
PRINCE EDWARD ISLAND TRUCKERS' ASSOCIATION
PRINCE EDWARD ISLAND VETERINARY MEDICAL ASSOCIATION
PRIVATE PRACTICE INTEREST GROUP OF SPEECH-LANGUAGE PATHOLOGISTS
PRIVATE SECTOR SUPPLY TO GOVERNMENT
PRO-CANADA NETWORK
PROFESSIONAL ART ALLIANCE OF GREATER VICTORIA INC.
PROFESSIONAL ART DEALERS ASSOCIATION OF CANADA INC.
PROFESSIONAL ASSOCIATION OF CANADIAN THEATRES
PROGRESSIVE CONSERVATIVE YUKON CAUCUS
PSYCHOLOGICAL ASSOCIATION OF MANITOBA
PSYCHOLOGICAL ASSOCIATION OF PRINCE EDWARD ISLAND
PSYCHOLOGISTS ASSOCIATION OF ALBERTA
PUBLIC SERVICE ALLIANCE OF CANADA
PURCELL, SHEILA
PYE, ARTHUR
QUADRINI, FERNANDO
QUEBEC BAR
QUEBEC EMPLOYERS COUNCIL
QUEBEC FEDERATION OF RECREATION ASSOCIATIONS

QUEBEC FEDERATION OF TEACHERS' UNIONS
QUEBEC INTERPROFESSIONAL COUNCIL
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RADIOCOMM ASSOCIATION OF CANADA
RAMADA HOTEL
RAND, GEORGE
RAPPAPORT, P.H.
RASO, WILLIAM
RAY, A.K.
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REGINA CHAMBER OF COMMERCE
REGIONAL MUNICIPALITY OF OTTAWA-CARLETON (SOCIAL SERVICES)
REGISTERED NURSES ASSOCIATION OF NOVA SCOTIA
RENTAL HOUSING COUNCIL OF BRITISH COLUMBIA
RESTAURANT & FOODSERVICES ASSOCIATION OF BRITISH COLUMBIA
RETAIL COUNCIL OF CANADA
RETAIL MERCHANTS' ASSOCIATION OF BRITISH COLUMBIA
REW, DORENE A.
ROBERTSON, IAN M.
ROBERTSON, R.G.
ROBERTSON, R.S.
ROBINSON, PAUL J.
ROBY, CLAUDE-BERNAND
RODRIGUE, GUY
RONALD, PAUL
ROONEY, DORIS
ROSLIN, ALEX
ROTH, JEAN
ROYAL CANADIAN GOLF ASSOCIATION
ROYAL VICTORIA - ROTARY LIFELINE
RUPERT, GARY
SABRE ENERGY LTD.
SAINT JOHN BOARD OF TRADE
SALVATION ARMY
SASKATCHEWAN ACTION COMMITTEE, STATUS OF WOMEN

SASKATCHEWAN ARTS ALLIANCE
SASKATCHEWAN CHAMBER OF COMMERCE
SASKATCHEWAN FEDERATION OF LABOUR
SASKATCHEWAN LEADER OF THE OPPOSITION
SASKATCHEWAN PSYCHOLOGICAL ASSOCIATION
SASKATCHEWAN UNION OF NURSES
SASKATOON CHAMBER OF COMMERCE
SATTERLY, MARK P.
SAVIDANT, JOHN S.
SAXBY, ISLA & NELSON
SAXBY, LORIE
SCHACKLETON, PETER D.
SCHARF, JOHN S.
SCHOOL BUS OPERATORS ASSOCIATION
SCHWARTZ, KEN
SCOTT, JAMES GUTHRIE
SCOTT, JOHN D.
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SEXTON, CHRISTINE S.
SHANTZ COACH LINES LTD.
SHAW, DAVID
SHEA, CHAUNCAY
SHELL CANADA LIMITED
SHEPEL, LARRY F.
SHEPHARD, U.E.
SHERBROCK, K.V.
SHERWOOD PARK AND DISTRICT CHAMBER OF COMMERCE
SHRIMPTON, A.J.
SIGAL, JOHN S.
SIGN ASSOCIATION OF CANADA
SIGN GROUP (JIM PATTISON)
SILVER TRAIL TOURISM ASSOCIATION
SIMCOE ERIE INVESTORS LIMITED

SIMMONDS, FRANK
SINCLAIR, COLEMAN
SINGLE MOMS
SINOTES, SUZANNE
SMITH, LYONS, TORRANCE, STEVENSON & MAYER BARRISTERS, SOLICITORS
SMITH, REGINALD & PAULINE
SMITTY'S PANCAKE HOUSE RESTAURANT
SNAETH, MURIEL
SOCIAL ACTION COMMISSION, DIOCESE OF CHARLOTTETOWN
SOCIAL JUSTICE COMMISSION
SOCIAL PLANNING COUNCIL OF KITCHENER-WATERLOO
SOCIAL PLANNING COUNCIL OF WINNIPEG
SOCIAL SCIENCE FEDERATION OF CANADA
SOCIETY OF MANAGEMENT ACCOUNTANTS OF CANADA
MANAGEMENT DU CANADA
SOCIETY OF ONTARIO VETERINARIANS
SODARCAN INC.
SOLIDARITÉ POPULAIRE QUÉBEC
SPEERS PETROCHEMICALS LTD.
SPEIRAN, PENNY
SPORT PRINCE EDWARD ISLAND
SPORTS FEDERATION
SPORTS HOLDINGS LTD
SPORTS-QUÉBEC
SPRAGUE, ANN M.
ST-JEAN, DANIEL
ST-ONGE, VICTOR
ST-THOMAS UNIVERSITY STUDENTS UNION
ST. JOHN'S BOARD OF TRADE
ST.MICHAEL'S HOSPITAL
STAGER, DAVID A.A.
STAMBULA, ROBERT
STEEVES, L.H.
STEHR, HUBERT O.
STRICKLAND, J.W.

STUDENTS' UNION OF ST. THOMAS UNIVERSITY
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YWCA OF CANADA/YWCA DU CANADA

VARIOUS PETITIONS

MINUTES OF PROCEEDINGS

TUESDAY, JUNE 27, 1989
(30)

[Text]

The Standing Committee on Finance met at 3:36 o'clock p.m. this day, in Room 371 (West Block) the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Audrey McLaughlin, Jerry Pickard, Lee Richardson, Pat Sobeski and Douglas Young.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward, Consultant.

By unanimous consent, at 5:10 o'clock p.m., the Committee proceeded to sit *in camera*.

By unanimous consent, in accordance with its mandate under Standing Order 108(2), the Committee commenced consideration of the Goods and Services Tax to be introduced by the Minister of Finance.

At 5:29 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, AUGUST 15, 1989
(34)

The Standing Committee on Finance met at 7:40 o'clock p.m. this day, in Room 253-D (Centre Block) the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Audrey McLaughlin, Lorne Nystrom, Lee Richardson, Pat Sobeski and Douglas Young.

Acting Members present: Jack Shields for Yvon Côté; Harry Chadwick for Clément Couture; David Berger for Jerry Pickard and Louise Feltham for René Soetens.

Other Members present: Fernand Jourdenais and John Rodriguez.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Michel Coderre and Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the technical document on the goods and services tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

At 9:35 o'clock p.m., in accordance with this day's Committee's decision, the sitting resumed *in camera*.

The Committee proceeded to the consideration of its order of business in relation to the Technical Document on the Goods and Services Tax.

At 10:29 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, SEPTEMBER 20, 1989
(42)

The Standing Committee on Finance met *in camera* at 9:42 o'clock a.m. this day, in Room 253 Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Murray Dorin, Alfonso Gagliano, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Member present: John Manley for Hon. Roy MacLaren.

Other Members present: David Berger, Diane Marleau.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Michel Coderre; Cheryl Knebel; Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26.*)

The Committee proceeded to the consideration of its future business.

At 11:47 o'clock a.m., the Committee adjourned to the call of the Chair.

MONDAY, OCTOBER 30, 1989
(92)

The Standing Committee on Finance met *in camera* at 3:38 o'clock p.m. this day, in Room 269 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson and Pat Sobeski.

Acting Member present: Ronald Duhamel for Alfonso Gagliano.

Other Member present: Jack Whittaker.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel; Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Service Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26.*)

It was agreed,—That, the dissenting "Minority Reports" opinions from the Liberal Party and the New Democratic Party, be appended to the Committee's Report and that the Committee will be responsible for translation of the texts.

It was agreed,—That, all documents distributed at *in camera* meetings dealing with the Technical Document on the Goods and Services Tax be picked up at the end of each meeting.

The Committee proceeded to the consideration of certain guidelines for the Draft Report to the House.

At 5:53 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 2, 1989
(93)

The Standing Committee on Finance met, *in camera* at 9:44 o'clock a.m. this day, in Room 269 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Lorne Nystrom, Jerry Pickard, Lee Richardson and René Soetens.

Acting Member present: John Manley for Douglas Young.

Other Member present: Jack Whittaker.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel; Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26.*)

The Committee resumed consideration of certain guidelines for the Draft Report to the House.

At 1:00 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 6, 1989
(94)

The Standing Committee on Finance met, *in camera* at 1:37 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski and René Soetens.

Other Member present: Jack Whittaker.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 4:01 o'clock p.m., the sitting was suspended.

At 4:10 o'clock p.m., the sitting resumed.

Consideration of guidelines for the Draft Report to the House resumed.

At 5:28 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 6, 1989
(95)

The Standing Committee on Finance met, *in camera*, at 7:57 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Michel Coderre; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on

Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 9:50 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 7, 1989

(96)

The Standing Committee on Finance met, *in camera*, at 9:08 o'clock a.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Committee's staff: Sean Aylward; Michael Cassidy; Michel Coderre; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 10:39 o'clock a.m., the sitting was suspended.

At 10:45 o'clock a.m., the sitting resumed.

Consideration of guidelines for the Draft Report resumed.

At 11:56 o'clock a.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 7, 1989

(97)

The Standing Committee on Finance met, *in camera*, at 2:07 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Acting Chairman, Murray Dorin, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. From the Committee's staff: Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 2:10 o'clock p.m., the Chairman took the Chair.

At 3:27 o'clock p.m., the sitting was suspended.

At 3:38 o'clock p.m., the sitting resumed.

Consideration of guidelines for the Draft Report resumed.

At 5:28 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 7, 1989 (98)

The Standing Committee on Finance met, *in camera*, at 8:11 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Acting Chairman, Murray Dorin, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. From the Committee's staff: Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 8:56 o'clock p.m., the Chairman took the Chair.

At 9:47 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, NOVEMBER 8, 1989 (99)

The Standing Committee on Finance met, *in camera*, at 9:06 o'clock a.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Lee Richardson, Pat Sobeski and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 10:35 o'clock a.m., the sitting was suspended.

At 10:40 o'clock a.m., the sitting resumed.

Consideration of guidelines for the Draft Report to the House resumed.

At 11:59 o'clock a.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, NOVEMBER 8, 1989
(100)

The Standing Committee on Finance met, *in camera*, at 1:39 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lorne Nystrom, Lee Richardson, Pat Sobeski and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 2:35 o'clock p.m., the sitting was suspended.

At 3:03 o'clock p.m., the sitting resumed.

Consideration of guidelines for the Draft Report to the House resumed.

At 5:27 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, NOVEMBER 8, 1989
(101)

The Standing Committee on Finance met, *in camera*, at 7:07 o'clock p.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau and René Soetens.

Acting Member present: Jack Whittaker for Audrey McLaughlin.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee proceeded to the consideration of guidelines for the Draft Report.

At 9:38 o'clock p.m., the Committee adjourned to the call of the Chair.

THURSDAY, NOVEMBER 9, 1989
(102)

The Standing Committee on Finance met, *in camera*, at 9:05 o'clock a.m. this day, in Mont Ste-Marie (Québec), the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lee Richardson, Pat Sobeski and René Soetens.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee resumed consideration of guidelines for the Draft Report to the House.

At 12:13 o'clock p.m., the Committee adjourned to the call of the Chair.

MONDAY, NOVEMBER 20, 1989
(103)

The Standing Committee on Finance met, *in camera*, at 3:43 o'clock p.m. this day, in Room 269 West Block, the Acting Chairman, Murray Dorin, presiding.

Members of the Committee present: Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Lorne Nystrom, Pat Sobeski, René Soetens and Douglas Young.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Blake Murray, Consultant.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee proceeded to the consideration of its Draft Report to the House.

At 4:31 o'clock p.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 21, 1989
(104)

The Standing Committee on Finance met, *in camera*, at 9:54 o'clock a.m. this day, in Room 269 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Pat Sobeski and René Soetens.

Acting Members present: John Cole for Lee Richardson; Jean-Guy Hudon for Bill Attewell.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Michel Coderre; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee proceeded to the consideration of its Draft Report to the House.

At 10:19 o'clock a.m., the Committee adjourned to the call of the Chair.

TUESDAY, NOVEMBER 21, 1989
(105)

The Standing Committee on Finance met, *in camera*, at 8:40 o'clock p.m. this day, in Room 269 WestBlock, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Pat Sobeski and René Soetens.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward; Michael Cassidy; Michel Coderre; Cheryl Knebel, Blake Murray, Consultants.

Pursuant to Standing Order 108(2), the Committee resumed consideration of the Technical Paper on the Goods and Services Tax released by the Minister of Finance on Tuesday, August 8, 1989. (*See Minutes of Proceedings and Evidence, Tuesday, August 15, 1989, Issue No. 26*).

The Committee proceeded to the consideration of its Draft Report to the House.

On motion of Murray Dorin, it was agreed,—That, the Draft Report, as amended, be adopted as the Committee's Second Report to the House of Commons; and

- That, the Chairman be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the Draft Report; and
- That, the Chairman be instructed to present the said Report to the House of Commons.

At 9:51 o'clock p.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

A copy of the relevant Minutes of Proceedings and Evidence of the Standing Committee on Finance (*Issues no. 26 to 84 inclusive and issue no. 85 which includes this report*) is tabled.

Respectfully submitted,

Don Blenkarn, M.P.
Chairman



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HOUSE OF COMMONS

Issue No. 86

Tuesday, January 30, 1990

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 86

Le mardi 30 janvier 1990

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance

*Procès-verbaux et témoignages du Comité
permanent des*

Finances

RESPECTING:

Pursuant to Standing Order 108(2), and to the January 23, 1990 Committee's decision, consideration of the subject-matter of Bill C-52, An Act to amend the Income Tax Act and related Acts

CONCERNANT:

Conformément à l'article 108(2) du Règlement ainsi qu'à la décision du Comité en date du 23 janvier 1990, étude de la teneur du projet de loi C-52, Loi modifiant la Loi de l'impôt sur le revenu et certaines lois connexes

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-fourth Parliament,
1989-90

Deuxième session de la trente-quatrième législature,
1989-1990

STANDING COMMITTEE ON FINANCE

Chairman: Don Blenkarn

Vice-Chairman:

Members

Bill Attewell
Yvon Côté
Clément Couture
Murray Dorin
Alfonso Gagliano
Steven Langdon
Diane Marleau
Lorne Nystrom
Jerry Pickard
Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Marie Carrière
Clerk of the Committee

COMITÉ PERMANENT DES FINANCES

Président: Don Blenkarn

Vice-président:

Membres

Bill Attewell
Yvon Côté
Clément Couture
Murray Dorin
Alfonso Gagliano
Steven Langdon
Diane Marleau
Lorne Nystrom
Jerry Pickard
Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Le greffier du comité
Marie Carrière

MINUTES OF PROCEEDINGS

TUESDAY, JANUARY 30, 1990

(109)

[Text]

The Standing Committee on Finance met at 3:30 o'clock p.m. this day, in Room 269 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Alfonso Gagliano, Jerry Pickard, Lee Richardson, Pat Sobeski and René Soetens.

Other Member present: Sid Parker.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward, Consultant.

Witnesses: From the Department of Finance: Jim Lynn, Director General, Analysis; Keith Horner, Social Tax Transfer, Personal Tax Analysis Division; Bill Holmes, Consultant.

Pursuant to Standing Order 108(2) and to the January 23, 1990, Committee's decision, the Committee commenced consideration of the subject-matter of Bill C-52, *An Act to amend the Income Tax Act and Related Acts*.

The witnesses from the Department of Finance answered questions.

At 5:30 o'clock p.m., the Committee adjourned to the call of the Chair.

EVENING MEETING

(110)

The Standing Committee on Finance met at 8:00 o'clock p.m. this day, in Room 269 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Diane Marleau and Jerry Pickard.

Other Member present: Sid Parker.

In attendance: From the Research Branch of the Library of Parliament: Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward, Consultant.

Witnesses: From the Department of Finance: Jim Lynn, Director General, Analysis; Keith Horner, Social Tax Transfer, Personal Tax Analysis Division.

Pursuant to Standing Order 108(2) and to the January 23, 1990, Committee's decision, the Committee resumed consideration of the subject-matter of Bill C-52, *An Act to amend the Income Tax Act and Related Acts*.

The witnesses from the Department of Finance answered questions.

PROCÈS-VERBAUX

LE MARDI 30 JANVIER 1990

(109)

[Traduction]

Le Comité permanent des finances se réunit à 15 h 30 aujourd'hui dans la pièce 269 de l'édifice de l'Ouest, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Bill Attewell, Don Blenkarn, Murray Dorin, Alfonso Gagliano, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens.

Autre député présent: Sid Parker.

Aussi présents: Du Service de recherche de la Bibliothèque du Parlement: Basil Zafiriou, analyste principal; Richard Domingue, attaché de recherche. *Du personnel du Comité:* Sean Aylward, consultant.

Témoins: Du ministère des Finances: Jim Lynn, directeur général, Analyse; Keith Horner, Transfert d'impôt — Programmes sociaux, Division de l'analyse de l'impôt des particuliers; Bill Holmes, expert-conseil.

En conformité de l'article 108(2) du Règlement et de sa décision du 23 janvier 1990, le Comité entreprend d'étudier le projet de loi C-52, *Loi modifiant la Loi de l'impôt sur le revenu et certaines lois connexes*.

Les témoins du ministère des Finances répondent aux questions.

À 17 h 30, le Comité s'ajourne jusqu'à nouvelle convocation du président.

SÉANCE DU SOIR

(110)

Le Comité permanent des finances se réunit à 20 h 00 dans la pièce 269 de l'édifice de l'Ouest, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Bill Attewell, Don Blenkarn, Murray Dorin, Diane Marleau, Jerry Pickard.

Autre député présent: Sid Parker.

Aussi présents: Du Service de recherche de la Bibliothèque du Parlement: Richard Domingue, attaché de recherche. *Du personnel du Comité:* Sean Aylward, consultant.

Témoins: Du ministère des Finances: Jim Lynn, directeur général, Analyse; Keith Horner, Transfert d'impôt — Programmes sociaux, Division de l'analyse de l'impôt des particuliers.

En conformité de l'article 108(2) du Règlement et de sa décision du 23 janvier 1990, le Comité entreprend d'étudier le projet de loi C-52, *Loi modifiant la Loi de l'impôt sur le revenu et certaines lois connexes*.

Les témoins du ministère des Finances répondent aux questions.

At 9:35 o'clock p.m., the Committee adjourned to the call of the Chair.

À 21 h 35, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Marie Carrière
Clerk of the Committee

La greffière du Comité
Marie Carrière

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Tuesday, January 30, 1990

• 1531

The Chairman: Order, please. In accordance with Standing Order 108(2), this is a consideration of the subject-matter of Bill C-52, an act to amend the Income Tax Act and related acts. Bill C-52 has not passed second reading, but it has been indicated that it will come to the Finance Committee on passage. Since we assume it will probably pass—it may not—we will have developed a thorough understanding of the problems of pensions anyway.

We have a series of people here to help us today. The director general of this part of the department is Jim Lynn. Jim, perhaps you would introduce the rest of your people.

Mr. Jim Lynn (Director General, Analysis, Tax Policy and Legislation Branch, Department of Finance): Mr. Chairman, with me are Keith Horner, who has spent many years in this area and has been through the long history of the development of this type of legislation; Bill Holmes, who is with Thorsteinsson and Company, tax lawyers in Vancouver, and was formerly with Towers Perrin actuaries, and he has worked with Keith on the development of the drafting of the legislation; and Cathy Cloutier, Simon Thompson, and Lise Potvin from the department, who have all been working in this area.

Mr. Chairman, I am sure you have all seen the—

The Chairman: We all have the bill here.

Mr. Lynn: I am prepared to make a small wager, Mr. Chairman, that the committee members have not yet completed the reading of the bill and the regulations and the notes on the bill and the notes on the regulations and the guide.

The Chairman: Right. We are going to start with that subject.

Mr. Lynn: That is a pretty safe bet. So what we would like to do today is take the members through a background piece we have prepared. What we want to cover in there is the background history of why we are, where we are, what tax assistance really is all about, how it relates to other important policy areas. Then we will look at Bill C-52: the purpose, the objectives of it, what is wrong with the present system, why indeed we need these changes. We will go through the major measures to describe them, make sure everyone understands them, and talk a bit about the impact of them.

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mardi 30 janvier 1990

Le président: La séance est ouverte. En confirmation avec le paragraphe 108(2) du Règlement, nous examinons la teneur du projet de loi C-52, Loi modifiant la Loi de l'impôt sur le revenu et certaines lois connexes. Le projet de loi C-52 n'a pas encore franchi l'étape de la deuxième lecture, mais nous savons qu'il sera renvoyé au Comité des finances dès que ce sera chose faite. En supposant qu'il franchisse cette étape—ce qui n'est pas garanti—nous aurons de toute façon acquis une solide compréhension des problèmes des pensions.

Plusieurs personnes sont ici aujourd'hui pour nous faciliter la tâche. Le directeur principal de la direction du ministère responsable de ce dossier est Jim Lynn. Pourriez-vous nous présenter les membres de votre équipe?

M. Jim Lynn (directeur principal, analyse, direction de la politique et de la législation de l'impôt, ministère des Finances): Monsieur le président, je suis accompagné aujourd'hui de Keith Horner, qui s'occupe de pensions depuis de nombreuses années et qui a retracé la longue évolution de ce genre de mesure législative; Bill Holmes, de *Thorsteinsson and Company*, avocats fiscalistes à Vancouver et qui était auparavant chez Towers Perrin, actuaires; il a travaillé avec Keith à la rédaction de l'avant-projet de loi. Il y a aussi Cathy Cloutier, de Simon Thompson, et Lise Potvin du ministère qui se sont tous occupés de la question des pensions.

Monsieur le président, je suis convaincu que vous avez tous vu. . .

Le président: Nous avons le projet de loi en main.

M. Lynn: Je serais prêt à parier, monsieur le président, que les membres du Comité n'ont pas encore achevé la lecture du projet de loi et des règlements, des notes techniques sur le projet de loi et sur le règlement et du guide.

Le président: Vous avez raison. Nous allons commencer par le guide.

M. Lynn: C'est un bon point de départ. Nous nous proposons aujourd'hui de présenter aux membres du Comité un document d'information que nous avons préparé. Ce document explique l'évolution de la législation, la situation actuelle, la nature de l'aide fiscale et la façon dont elle s'imbrique avec les principaux éléments de la politique fiscale. Ensuite nous faisons une analyse du projet de loi C-52: son objet, ses buts, les lacunes du régime actuel, et enfin, la nécessité des changements proposés. Nous allons décrire tour à tour les principales mesures afin de nous assurer que chacun les comprend bien et nous parlerons ensuite brièvement de leurs incidences.

[Text]

I think, Mr. Chairman, we will go through this page by page and point by point and entertain questions as members have them. If we do get through this, members should have a pretty good understanding of what the bill is all about.

Now, on page 2 we start with a bit of the history. Tax assistance for retirement saving is a long-standing feature of the income tax system. We give some dates of some of the major developments right from the introduction of the personal income tax in 1917. These measures have been with us since the post-war period. Employer pension deductions started way back in 1919. The beginning of rules to limit pension benefits began following World War II. RRSPs were introduced in 1957.

• 1535

The Chairman: Wait a minute. This says:

Revenue Canada administrative rules to limit pension benefits (which were being used to avoid wartime wage controls).

Mr. Lynn: Yes, people would shift into pensions rather than wages so as to avoid some of the controls.

The Chairman: I see.

Mr. Lynn: Now, it took a couple of years after the war to get them in place. Those are some of the key milestones along the way.

To continue, in 1966, when the Carter commission did its review of the tax system, they suggested that there was a need for some comprehensive lifetime limits on tax assistance for retirement savings. That is really what we are into, and there has been a long gestation of those proposals.

In more recent years, throughout the 1980s, we have had a number of papers that have led to the present legislation. In 1982 there was a green paper by the previous government. In 1983 there was a report of the parliamentary committee, the Frith committee. In 1984 there was a budget discussion paper. In 1986 there was a white paper. In the spring of 1988, we had draft legislation. And it is on the basis of consultations following the presentation of that draft legislation that we have Bill C-52, which is now before the House.

What we are concerned with in this legislation is tax assistance for retirement savings. It is not concerned with the level of pensions and benefits that companies or employers may wish to provide, or how much people may wish to put aside for their retirement savings, but with the element of tax assistance that the government is prepared to provide for those various plans that people enter into to secure their retirements. So we need to understand the concepts and the nature of the tax assistance. We are talking about substantial sums here. The tax treatment of

[Translation]

Monsieur le président, je propose que nous discussions de ce document page par page et point par point en répondant au fur et à mesure aux questions des députés. Si nous réussissons à nous rendre jusqu'au bout du document d'information, les députés auront alors une assez bonne idée de la teneur du projet de loi.

À la page 3 du document, nous présentons l'historique. L'aide fiscale à l'épargne-retraite est une caractéristique bien établie du régime d'impôt sur le revenu au Canada. Nous donnons les dates des principaux changements apportés à la législation fiscale depuis l'instauration de l'impôt sur le revenu des particuliers en 1917. Ces mesures existent depuis l'après-guerre. La déduction des cotisations patronales de retraite remonte à 1919. Les règles visant à limiter les prestations de retraite ont été instaurées après la Seconde Guerre mondiale. Les REER ont été institués en 1957.

Le président: Un instant. Je lis ici:

Règles administratives édictées par Revenu Canada afin de limiter les prestations de retraite (lesquelles servaient à contourner les mesures de contrôle des salaires en temps de guerre).

M. Lynn: Oui, on versait des pensions plutôt que des salaires afin d'éviter certains des contrôles.

Le président: Je vois.

M. Lynn: Les contrôles ont été instaurés graduellement au fil des années suivant la guerre. Vous avez là certaines des dates clés.

Quand la Commission Carter sur la fiscalité a terminé ses travaux en 1966, elle a recommandé l'instauration de plafonds qui limiteraient globalement l'épargne-retraite ouvrant droit à une aide fiscale dans un cadre viager. Voilà en réalité ce dont nous discutons maintenant et ces propositions ont mis du temps à voir le jour.

Plus récemment, dans les années 80, plusieurs documents ont préparé la voie au projet de loi actuel. En 1982, le gouvernement précédent a publié un Livre vert. En 1983, le comité parlementaire présidé par M. Frith, a publié son rapport. En 1984, nous avons eu un document d'étude budgétaire. En 1986, il y a eu un Livre blanc. Un avant-projet de loi a été publié au printemps de 1988. Enfin, le projet de loi C-52 dont est maintenant saisie la Chambre reflète les consultations qui ont été tenues après le dépôt de l'avant-projet de loi.

Le plus récent projet de loi porte sur l'aide fiscale à l'épargne-retraite. Il ne vise pas à modifier le niveau des pensions ou des avantages sociaux que les entreprises et les employeurs pourraient servir à leurs employés ni à déterminer quelles sommes les contribuables pourraient mettre de côté sous forme d'épargne-retraite mais plutôt à préciser le montant d'aide fiscale que le gouvernement est disposé à accorder au titre des divers régimes d'épargne-retraite auxquels peuvent souscrire les Canadiens. Ainsi, nous devons comprendre les principes sous-jacents et la

[Texte]

saving in registered plans that provide tax deferral cost the federal government, we estimate, about \$5.5 billion per year. This is based on assets in total registered plans of perhaps \$330 billion.

These registered plans are the conventional registered pension plans, either of a money-purchase type or the more common ones: the defined-benefit type of plan, the deferred profit-sharing plans, and of course the registered retirement savings plans. Anyone who looks at the newspapers these days is familiar with them.

Mr. Attewell (Markham—Whitchurch—Stouffville): With total assets of \$330 billion, the tax deferral benefit of \$5.5 billion seems small. What is the formula or calculation on that?

The Chairman: It is \$5.5 billion per year, is it not?

Mr. Keith Horner (Personal Tax Analysis Division, Department of Finance): It is \$5.5 billion federally, so the total would be about \$8 billion, federal plus provincial.

Mr. Lynn: The tax deferral benefits arise because, when people make contributions to these plans, within limits, they are deductible, so they do not pay tax on it. The earnings then that the money in the funds earns are not taxable while they are in the fund being earned. But then of course the benefits are taxable in the hands of the individuals when they draw them in their retirement period.

There is another way in which the deferred taxation provides a benefit: you might have a lower tax rate in your retirement period than you had during your period of contributing your funds. But that is really marginal to the major tax deferrals, given that these funds are held for such a long time. It is the fact that it is not taxed while it is earning that really constitutes the bulk of the benefit through this system.

Now, as Keith just said, there is an example on the following page, page 4, which shows how the deferral of tax on... We take \$1,000 of registered plan savings and we show how it provides a higher benefit—we go just one year, and you can imagine what it is like when it is accumulated over many years. We show after one year the difference in the benefit if you have the tax assistance and if you do not, with quite simple assumptions about interest rates and tax rates—assuming a 40% tax rate and a 10% interest rate.

[Traduction]

nature de l'aide fiscale. Nous parlons ici de sommes considérables. Nous avons calculé que le régime fiscal de l'épargne placé dans les régimes agréés ou enregistrés permet d'obtenir un report d'impôt qui coûte au gouvernement fédéral environ 5,5 milliards de dollars par année si nous calculons que l'actif total des régimes enregistrés s'élève à environ 330 milliards de dollars.

Ces régimes agréés englobent les régimes de retraite agréés classiques, c'est-à-dire les régimes à cotisations déterminées et les plus répandus, à savoir les régimes de retraite à prestations déterminées, les régimes de participation différée aux bénéfices, et bien sûr les régimes enregistrés d'épargne-retraite. Ceux qui lisent les journaux ces jours-ci les connaissent bien.

M. Attewell (Markham—Witchurd—Stouffville): Si l'actif total s'élève à 330 milliards de dollars, un report d'impôt de 5,5 milliards de dollars semble peu élevé. Comment calculez-vous le report?

Le président: Le report est de 5,5 milliards de dollars par année, n'est-ce pas?

M. Keith Horner (Division de l'analyse de l'impôt des particuliers, ministère des Finances): Il s'agit de 5,5 milliards de dollars pour le gouvernement fédéral de sorte que le total, fédéral plus provincial, s'élève à environ 8 milliards de dollars.

M. Lynn: Les participants à ces régimes bénéficient de reports d'impôt parce que leurs cotisations sont déductibles et donc échappent à l'impôt. Les revenus de placement obtenus par ces régimes ne sont pas imposables tant qu'ils restent à l'abri du régime. Cependant, ces avantages deviennent imposables entre les mains des particuliers lorsqu'ils encaissent les fonds du régime au moment de la retraite.

Le report d'impôt comporte aussi un avantage fiscal dans la mesure où le contribuable pourrait être imposé à un taux plus faible au moment de la retraite que ce n'était le cas au moment où il cotisait au régime. Cet avantage est toutefois minime par rapport aux principaux reports d'impôt étant donné que cet argent reste immobilisé pendant si longtemps. L'avantage provient surtout du fait que l'intérêt accumulé sur les fonds placés n'est pas imposable au fur et à mesure.

• 1540

Maintenant, comme vient de le dire Keith, vous avez un exemple à la page suivante, c'est-à-dire à la page 5, qui montre comment le report de l'impôt sur... Nous avons pris ici l'exemple d'une épargne fiscale dans un régime enregistré de 1,000\$ et nous montrons à quel point elle est plus avantageuse. Nous n'avons donné l'exemple que sur un an, et vous pouvez imaginer ce que cela donne sur de nombreuses années. Nous avons illustré la différence au bout d'un an entre l'épargne ouvrant droit à une aide fiscale et celle qui n'y donne pas droit, en partant d'hypothèses simplifiées sur les taux d'intérêts et les taux d'imposition. Nous avons pris un taux d'imposition de 40 p. 100 et un taux d'intérêt de 10 p. 100.

[Text]

If you look at the second column, the column on page 4 entitled "Non-Tax-Assisted Saving", if someone starts with \$1,000, they earn \$1,000, and if it is taxable they would pay \$400 tax on it. They would have \$600, then, to put into the fund. After a year that \$600 would earn \$60 of interest. The interest would be taxed at \$24. So he would have in the fund at the end of the year \$636, which means on his \$600 he has a return of about \$36.

If we look at the first column, the "Tax-Assisted Saving", again we start with \$1,000, but instead of the government keeping the \$400 of tax this time it permits that money to keep working for the individual. So he has \$1,000 working for him. On that he would earn \$100 at 10%. There is no tax on the interest earned, so he has \$1,100 after the year. He then takes it out. It is taxed when he takes it out, at 40%. So the tax is \$440, which means he has \$660. That means on the \$600 of his own money he actually put to work he has earned \$60.

So the difference between the two systems, one with tax assistance and one without, is \$24; and that is on a simple case after one year. Over a number of years and with larger amounts you can see why the tax assistance through these schemes can be quite considerable.

Mr. Horner: I should just add that if you take 0.25% of \$330 billion you would get about \$8 billion a year.

The Chairman: What is the government's cumulative loss in tax revenue as a result of capital building up in these funds that does not bear tax on investment income?

Mr. Horner: One measure is to say how much the cumulative amount of money that is out there is the \$330 billion. Each year, if we say we could tax that \$330 billion this year but we will not, we will put that off until next year, the fact that we are delaying by one year—and of course we will delay further years—would gain \$8 billion, federally and provincially.

The Chairman: In other words, we lose another \$8 billion there.

Mr. Horner: The federal and provincial governments together, each year they leave that money untaxed. . . it is as if they have given an interest-free loan to the taxpayer.

The Chairman: To the saver. We are assuming, of course, you defer at a 40% tax rate. What happens if you move to the Bahamas and then decide to cash your plan?

Mr. Horner: There would also be an income-averaging—

The Chairman: No, there would not. You would just cash the plan and pay the tax the year in the Bahamas, and you would pay a 25% withholding tax, would you not?

[Translation]

Dans la deuxième colonne de la page 5, celle qui est intitulée «épargne ne donnant pas droit à une aide fiscale», on peut voir qu'un épargnant qui commence avec 1,000\$, c'est-à-dire quelqu'un qui a gagné 1,000\$, doit, si cette somme est imposable, acquitter un impôt de 400\$. Il lui reste donc 600\$ à investir dans un fonds de pension. Au bout d'un an, ces 600\$ auront rapporté 60\$ en intérêts ce qui représente un impôt de 24\$. A la fin de l'année, le fonds contiendra donc 636\$, ce qui lui aura rapporté 36\$ sur un investissement de 600\$.

Si l'on prend la première colonne, sous «épargne ouvrant droit à une aide fiscale», là encore on part avec 1,000\$, mais cette fois-ci, le gouvernement ne prend pas les 400\$ qui lui revient et l'épargnant peut mettre tout son argent à contribution. Il a donc 1,000\$ à investir. Là-dessus, à 10 p. 100, les intérêts s'élèveront à 100\$. L'intérêt n'est pas imposable, et donc au bout d'un an il a 1,100\$. À ce moment là, il retire sa mise. Il est alors imposé à 40 p. 100. L'impôt est donc de 440\$, ce qui lui laisse 660\$, dont 600\$ qu'il a lui-même investis et les 60\$ que cet argent lui a rapporté.

Donc, la différence entre l'épargne avec aide fiscale et l'épargne sans aide fiscale est de 24\$; et ce après un an seulement sur un exemple très simple. Sur plusieurs années, et avec des sommes plus importantes, on comprend pourquoi l'aide fiscale devient un élément considérable.

M. Horner: Je voudrais simplement ajouter que si l'on prend 0,25 p. 100 de 330 milliards de dollars, cela donne à peu près 8 milliards de dollars par an.

Le président: Quel est le manque à gagner fiscal cumulatif pour le Trésor dû à ce capital qui s'accumule dans des fonds dont les revenus ne sont pas imposables?

M. Horner: Une façon de calculer, c'est de partir du total cumulatif de 330 milliards de dollars d'investissements dans ces fonds. Chaque année, si nous partons du principe que nous pourrions imposer ces 330 milliards de dollars, mais que nous ne le faisons pas, que nous remettons à l'année suivante, en reportant d'un an—et bien entendu, nous reportons de plusieurs années—donne pour le fédéral et les provinces, 8 milliards de dollars.

Le président: Autrement dit, nous perdons 8 milliards de dollars supplémentaires là-dessus.

M. Horner: Le fédéral et les provinces ensemble, qui chaque année n'imposent pas cet argent. . . C'est comme s'ils accordaient aux contribuables un prêt sans intérêt.

Le président: À l'épargnant. Nous supposons bien sûr un report d'impôt à un taux de 40 p. 100. Mais qu'advient-il si l'épargnant s'en va vivre aux Bahamas puis décide d'encaisser son régime?

M. Horner: Il y a une disposition d'étalement du revenu. . .

Le président: Non. Il prend son argent et l'année de son départ pour les Bahamas, il paie simplement une retenue d'impôt de 25 p. 100, n'est-ce pas?

[Texte]

Mr. Horner: That is right. You end up getting an additional benefit.

The Chairman: In other words, you would get a further benefit.

Mr. Horner: Yes, that is correct.

The Chairman: Not only that. You would save money going in. You would pay no tax on all your income during the time it was there. You would get a further benefit when you took it out. Does this bill stop that?

Mr. Horner: No, it takes changes—

The Chairman: Will this bill be amended to stop that?

Mr. Horner: I do not believe it can stop that by itself. It is a tax treaty matter.

The Chairman: It is not a tax treaty matter. It is a matter of how you allow people to cash RRSPs and pension plans. It is a loophole. It is a loophole in the Income Tax Act. You can provide that foreigners cannot cash domestic sheltered savings plans unless they pay a penal tax. That is simple enough.

An hon. member: Top marginal rate.

The Chairman: Sure. There is no reason why this particular type of savings should be sheltered behind a tax treaty. This is strictly a gift for retirement. Why should this gift for retirement all of a sudden become a specially super gift to those who decide to live offshore? And why is this bill not solving that?

• 1545

Mr. Horner: It is all Canadian, so it makes some savings, Mr. Chairman.

The Chairman: The Canadians who make savings I am talking about are Canadians who happen to decide to live offshore. They only have to live offshore for a few years, enough years to cash their plans. They can then come back and live onshore. They can take advantage of some medicare.

Mr. Horner: Behind the tax treaties is an international agreement about the taxation of moneys, and the general agreement among OECD countries is that pension income is taxed in the country of—

The Chairman: This is not pension income. This is cashing funds that are sheltered funds.

Mr. Horner: That is true, but all pension income is funds that have been sheltered over the period of their accumulation.

The Chairman: Why would you not then provide that anyone who went offshore, left Canada, would have to

[Traduction]

M. Horner: C'est exact. Cela représente donc un avantage supplémentaire.

Le président: Autrement dit, vous en tirez un avantage supplémentaire.

M. Horner: C'est exact.

Le président: Et ce n'est pas tout. Il y a une économie réalisée au départ. Il n'y a pas d'impôt à payer sur les revenus pendant toute la durée du séjour là-bas. Cela représente encore un avantage supplémentaire au moment du retrait du fonds. Est-ce que le projet de loi empêchera cette manoeuvre?

M. Horner: Non, il faudrait changer. . .

Le président: Le projet de loi sera-t-il modifié de façon à empêcher cela?

M. Horner: Je ne pense pas que cela soit possible. C'est une question de traités fiscaux.

Le président: Cela n'a rien à voir avec les traités fiscaux. C'est une question de réglementer la façon dont les gens peuvent encaisser leurs REER et leur fonds de pension. C'est une échappatoire. C'est une des lacunes de la Loi de l'impôt sur le revenu. On peut disposer que les étrangers ne pourront pas encaisser leurs régimes d'épargne détenus au Canada à l'abri de l'impôt à moins de payer une pénalité fiscale. C'est pourtant simple.

Une voix: Au taux marginal maximum.

Le président: Bien entendu. Il n'y a aucune raison que ce type particulier d'épargne soit protégé par un traité fiscal. Ce n'est rien de plus qu'un cadeau pour la retraite. Pourquoi ce cadeau devrait-il tout à coup se transformer en un super cadeau pour ceux qui décident d'aller vivre à l'étranger? Et pourquoi le projet de loi ne l'empêche-t-il pas?

M. Horner: Ce sont tous des Canadiens, monsieur le président, c'est donc générateur d'épargne.

Le président: Les Canadiens épargnants dont je parle ici sont des Canadiens qui décident d'aller vivre à l'étranger. Il leur suffit d'y passer quelques années, suffisamment pour encaisser leurs régimes. Ils peuvent ensuite revenir vivre au pays et profiter de l'assurance médicale.

M. Horner: Les traités fiscaux reposent sur un accord international concernant l'imposition de l'argent et un accord général entre les pays de l'OCDE prévoit que les revenus de pension sont imposés dans le pays de. . .

Le président: Ce ne sont pas des revenus de pension. C'est de l'argent qui a été investi dans des fonds non imposés.

M. Horner: C'est exact, mais c'est le cas de tous les fonds de pension pendant la période d'accumulation.

Le président: Alors pourquoi ne pas disposer que toute personne qui quitterait le Canada serait tenue d'encaisser

[Text]

instantly cash his pension at the highest marginal rate, before he was allowed to be deemed an offshore resident—non-resident?

Mr. Horner: Presumably we would have to reciprocate with people coming into Canada, that they would—

The Chairman: It would not matter to us. Nobody else has as generous a tax sheltering. The Americans do not have any; the Brits have very little; the Australians have none. I do not know why we would get so worked up about that. The Bahamas, for sure, do not bother.

Mr. Lynn: Let us look into that, Mr. Chairman.

The Chairman: I just brought it to your attention because this is the kind of issue that I know certainly at least one political party—and this particular member from this political party—is very upset about. Some people are able to viciously raid the till and there seems to be no effort to stop the raiding.

Mr. Lynn: I appreciate that. Let us see what the situation is with respect to that.

The Chairman: Let us go on.

Mr. Lynn: That is the way the tax assistance works. The measures in the bill are related to other policy areas. One is the overall income security system, which encompasses other federal programs; and second is the relationship to other measures that regulate pensions generally.

On page five we talk a bit about the tax assistance and retirement income security. The tax assistance for retirement savings is aimed at helping Canadians to replace enough of their earnings when they retire—with pension income—so that they can maintain their living standards in retirement, without suffering a severe drop in those standards. It is generally accepted that if an individual has 60% to 70% of his income when he retires, of his pre-retirement earnings, then he should be able to live relatively the same.

Now, there are other ways in which the government has programs to help people in their retirement. The federal cost of tax assistance, the figure we referred to, about \$5.5 billion, may be about one sixth of the total cost of federal retirement income security programs. The other programs are aimed primarily at securing a basic minimum income for the elderly, but they play a significant role, particularly for the lower-income earners. I think, Mr. Chairman, this is the most significant point. The fact is that you have to look at the tax assistance in relationship to other government programs that are aimed at helping people in their old age.

Table number one, federal expenditure and retired income security programs, shows that the old age security, guaranteed income supplement, spouse's allowance, and

[Translation]

immédiatement son régime de pension au taux marginal le plus élevé avant de pouvoir être considérée comme non résidente?

M. Horner: Il faudrait prévoir la réciproque pour les gens qui viennent vivre au Canada, qui ne pourraient. . .

Le président: Cela ne nous concerne pas. Aucun autre pays n'a un abri fiscal aussi généreux. Les Américains n'ont rien du tout; les Britanniques très peu et les Australiens rien non plus. Je ne vois pas qu'il y ait de quoi s'inquiéter. Quant aux Bahamas, il est certain que cela ne les préoccupe pas.

M. Lynn: Permettez-nous d'examiner la question, monsieur le président.

Le président: Je vous la signale simplement parce que c'est le genre de question qui indispose particulièrement au moins un parti politique, et surtout ce député-ci dans mon parti. Certains peuvent, sans la moindre considération, vider le tiroir-caisse, et on ne semble rien faire pour les en empêcher.

M. Lynn: Je comprends. Permettez-nous d'examiner la question.

Le président: Continuons.

M. Lynn: C'est ainsi que fonctionne l'aide fiscale. Les dispositions du projet de loi portent sur d'autres domaines. Il y a entre autres le régime global de sécurité du revenu, qui touche également d'autres programmes fédéraux; et puis il y a le rapport avec d'autres mesures de réglementation générale des pensions.

À la page 6, nous parlons un peu de l'aide fiscale et de la sécurité du revenu à la retraite. L'aide fiscale à l'épargne-retraite a pour but d'aider les Canadiens à remplacer une proportion suffisante de leur revenu salarial par un revenu de pension, afin de maintenir leur niveau de vie à la retraite, ou du moins de ne pas le voir trop baisser. On considère généralement que si une personne peut avoir un revenu à la retraite qui équivaut à 60 ou 70 p. 100 de ce qu'elle gagnait avant la retraite, elle devrait pouvoir maintenir à peu près le même niveau de vie.

Le gouvernement a d'autres programmes pour aider les gens dans leur retraite. Le coût de l'aide fiscale pour le gouvernement fédéral, c'est-à-dire ce chiffre que nous avons mentionné d'environ 5,5 milliards de dollars, représente un sixième du coût total des programmes fédéraux de sécurité du revenu de retraite. Les autres programmes visent principalement à assurer un revenu de base aux personnes âgées, mais ils jouent également un rôle appréciable de remplacement du revenu salarial, en particulier pour les petits salariés. Monsieur le président, cela me paraît être le point le plus important. L'aide fiscale doit être considérée par rapport aux autres programmes gouvernementaux visant à aider les personnes âgées.

Le tableau n° 1, intitulé «Dépenses fédérales consacrées aux programmes de sécurité du revenu de retraite», montre que la sécurité de la vieillesse, le

[Texte]

the Canada Pension Plan are the other elements of this overall system, in addition to the tax assistance for retirement saving.

Table number two, earnings replacement rates from public pensions, again is particularly relevant and interesting. That shows the different income levels: what percentage of your pre-retirement earnings are replaced by the public plans. Now, as you can see, someone who had pre-retirement earnings of \$12,500—not very well off at all—with the old age security, and the guaranteed income supplement, and perhaps some Canada Pension Plan, a single pensioner would get 85% of his pre-retirement earnings through those programs, and indeed a couple, where previously they had been a one-earner couple, would get 117% of their pre-retirement earnings. So the other public programs really help the people at the low-income end of the scale, and you can see how that changes as you move up.

• 1550

At \$25,000 the assistance through these programs is still pretty substantial—43% for a single pensioner, 58% for a couple—declining at \$50,000, and then as you get on up declining even more, so that at the upper end, where obviously there is no more guaranteed income supplement, the old age security and the Canada Pension Plan account for, in this case, 10% to 15% of pre-retirement earnings. So there is scope as you move up the income scale to provide some opportunity for people to assist themselves in their old age, but the basic programs really do a substantial job in helping the people at the lower end of the income scale.

Tax assistance is also related to pension reform. It is a major component of the broad pension reform program to which changes have been made in recent years designed to strengthen both the public and the private provisions for retirement income. During the 1980s we have seen increases in the GIS benefits, an expansion of eligibility for the spouse's allowance. There were improvements in the CPP benefits a couple of years ago, a number of measures there relating to disability, credit splitting on marriage breakdown, and continuing the survivor's benefits on remarriage—things like that. Most importantly with respect to the CPP, measures were taken to increase the contribution rates gradually over time to secure the financing of the CPP program.

The federal and virtually all provinces I think have pension benefits standards acts. They have been amended

[Traduction]

supplément de revenu garanti, l'allocation de conjoint, ainsi que le Régime de pensions du Canada sont également des éléments du régime global qui viennent s'ajouter à l'aide fiscale à l'épargne-retraite.

Le tableau n° 2, intitulé «Taux de remplacement du revenu salarial assuré par les pensions au publiques», est lui aussi pertinent et intéressant. Il montre les différents niveaux de revenu: quel pourcentage des gains avant la retraite sont remplacés par les régimes de pension publics. Comme vous pouvez le voir, une personne qui avait des gains avant la retraite de 12,500\$—une personne fort modeste—si elle vit seule, avec la sécurité de la vieillesse, le supplément de revenu garanti, et peut-être une petite pension du Régime de pensions du Canada, recevrait 85 p. 100 de son revenu avant la retraite grâce à ces programmes; quant à un couple, si l'un des deux seulement avait un salaire, ces programmes leur fourniraient 117 p. 100 de leurs gains avant la retraite. Ces programmes de pension publiques aident donc beaucoup les revenus les plus faibles, et vous pouvez voir clairement comment cela change à mesure que les gains avant retraite augmentent.

Lorsque le revenu est de 25,000\$, l'aide accordée en vertu de ces programmes est quand même assez considérable—43 p. 100 pour un retraité seul et 58 p. 100 pour un couple—puis elle baisse à partir de 50,000\$. Plus le revenu est élevé, plus l'aide financière diminue, de sorte que, pour les plus nantis, qui ne reçoivent évidemment pas le supplément de revenu garanti, la sécurité de la vieillesse et le Régime de pensions du Canada représentent entre 10 p. 100 et 15 p. 100 de la rémunération à laquelle ils avaient droit avant la retraite. Ainsi, plus on monte dans l'échelle des revenus, plus les gens ont la possibilité de pourvoir eux-mêmes à leur retraite, mais les programmes de base apportent vraiment une aide considérable à ceux qui se trouvent au bas de l'échelle des revenus.

L'aide fiscale est également liée à la réforme des pensions. Il s'agit d'une composante importante du programme général de réforme des pensions dans le cadre duquel certains changements ont été apportés ces dernières années afin de renforcer les dispositions relatives aux régimes d'épargne retraite publics et privés. Au cours des années 1980, les prestations versées au titre du supplément de revenu garanti ont augmenté et les critères d'admissibilité à l'allocation au conjoint ont été assouplis. Depuis quelques années, certaines améliorations ont également été apportées au Régime de pensions du Canada, notamment en ce qui concerne l'invalidité, le partage des crédits lors de la rupture du mariage et le maintien des prestations de survivant lors du remariage. La décision la plus importante qui a été prise relativement au RPC a été d'augmenter graduellement les taux de cotisation afin d'assurer le financement du régime.

Au niveau fédéral et dans presque toutes les provinces, il existe des lois sur les normes des prestations de

[Text]

in recent years to improve such things as the eligibility, investing, the portability when people move or change jobs, and survivor's benefits. So we have to look at the tax assistance in the context of those two other major policy areas.

Mr. Attewell: Can we go back to page 5, please?

Mr. Lynn: Yes.

Mr. Attewell: The \$34 billion is what—the total outlay each year?

Mr. Lynn: Yes, the 1989-90.

Mr. Attewell: And the Canada Pension Plan is the only one where we are paying in?

Mr. Lynn: Contributory, yes. That is the gross pay-out, but it is a contributory plan, yes.

Mr. Attewell: What percent of the \$9 billion is funded by the contributions?

Mr. Lynn: A small fund is being built up, and the amendments that were made a couple of years ago were designed to increase the fund. It was never totally funded, as you recall, and yet it was not totally pay as you go. There was a small fund, and I think the bill provided that the fund be built up to meet a certain percentage of the pay-out.

Mr. Attewell: What is that now?

Mr. Lynn: We would collect somewhat more than that, because some amounts are going into building up the fund.

Mr. Horner: But it is really closer to a pay as you go system. A pure pay as you go system is one in which the contributions are just covering the benefits that are paying out and you are not building up a fund. There is, as Mr. Lynn says, a small fund being built up, but not a fund of the size of a private pension plan in which, if the contributions stopped, all the benefits earned to date could be paid out of that fund.

Mr. Attewell: But currently the contributions more than cover the annual pay-out?

The Chairman: That is right.

Mr. Lynn: Yes. The fund is being built up to a target level in relation to the annual pay-out in the year 2010 or something like that.

Mr. Pickard (Essex—Kent): While we are dealing with that page, I just looked at the replacement rate figures as a percent, and if I run across then I can see the \$12,500 and the 85% and 117%. Those seem logically to fit into \$25,000 as a 50% increase, and going to \$50,000 is

[Translation]

pensions. Des améliorations ont été apportées à ces lois ces dernières années, notamment en ce qui concerne l'admissibilité, les fonds investis, la transférabilité pour ceux qui déménagent ou qui changent d'emploi et les prestations de survivant. Il faut donc examiner l'aide fiscale dans le contexte de ces deux autres grands domaines d'action.

M. Attewell: Pouvons-nous revenir à la page 6, s'il vous plaît?

M. Lynn: Bien sûr.

M. Attewell: Les 34 milliards de dollars représentent quoi—le montant total déboursé chaque année?

M. Lynn: Oui, le montant déboursé en 1989-1990.

M. Attewell: Et le Régime de pensions du Canada est le seul auquel nous cotisons?

M. Lynn: Oui, auquel nous cotisons. Il s'agit des dépenses brutes, mais le régime est effectivement contributif.

M. Attewell: Quel pourcentage de ces 9 milliards de dollars est financé par les cotisations?

M. Lynn: Nous sommes en train d'accumuler un petit fonds de placement, et les modifications apportées il y a quelques années visaient à accroître ce fonds. Si vous vous souvenez bien, le régime n'a jamais été entièrement capitalisé, mais il n'a jamais non plus été basé sur la répartition pure. Un petit fonds de placement avait été accumulé, et je crois que le projet de loi prévoyait que ce fonds serait augmenté de manière à pouvoir financer un certain pourcentage des montants devant être déboursés.

M. Attewell: Quel est ce pourcentage à l'heure actuelle?

M. Lynn: Nous percevons un peu plus que le pourcentage prévu, car certains montants sont utilisés pour accroître le fonds.

M. Horner: Mais le régime s'approche davantage d'un régime par répartition pure. Dans un tel régime, on ne recueille que le montant des cotisations nécessaires pour payer les prestations sans constituer de fonds de placement. Comme l'a dit M. Lynn, un petit fonds est en voie d'être constitué, mais pas un fonds de taille comparable à celui d'un régime de retraite privé qui permettrait, advenant la cessation de toute cotisation, de payer toutes les prestations acquises jusqu'à ce moment là.

M. Attewell: Mais, à l'heure actuelle, les cotisations sont supérieures au montant des dépenses annuelles?

Le président: C'est juste.

M. Lynn: Oui. On est en train de constituer un fonds dont le niveau serait égal au montant des déboursés annuels aux alentours de l'an 2010.

M. Pickard (Essex—Kent): Pendant que nous en sommes à cette page, je viens tout juste d'examiner le taux de remplacement donné en pourcentage, et si je regarde du côté droit, je vois qu'on indique 12,500\$ ainsi que 85 p. 100 et 117 p. 100. Tout cela semble logique compte

[Texte]

another 50% increase, which seems to fit relatively well. When you get to \$75,000, that figure does not mathematically fit the other three figures you run across.

The Chairman: Claw-back.

Mr. Pickard: Okay. Thank you.

• 1555

Mr. Lynn: What is your point though?

The Chairman: The claw-back is the effect of the Canada Pension Plan.

Mr. Pickard: I understand; that is fine.

Mr. Horner: It is 14% and 19% before the claw-back for \$75,000.

Mr. Lynn: Sir, your point is that the \$43,000 is about half the \$85,000?

Mr. Pickard: No. The point is the \$75,000s are getting hit with claw back. That is quite reasonable, I understand.

Mr. Lynn: No, but I thought you said that the—does that arrive at 50%?

Mr. Pickard: Your ratios work out well to \$50,000. At \$75,000 the ratios are totally out, disproportionate and—

Mr. Lynn: Sorry, the ratio of what to what?

Mr. Pickard: Is disproportionate to the other ratios that are set up and obviously the claw-back is the answer, sure.

Mr. Lynn: I am not sure what ratio you are talking about. I am sorry.

Mr. Pickard: Let us take the 85 figure, 85% of the income. At \$12,000 you receive 85% of the income. The amount that you receive at \$25,000 is exactly the same dollar amount, so you are going to receive half.

Mr. Lynn: So 43%—you mean one-half of 85%.

Mr. Pickard: That is right.

Mr. Lynn: And at 21% it is about one-half of 43%.

Mr. Pickard: That is exactly right. The claw-back is the thing that hampers it and normally I would guess on the \$75,000 you would receive about 18%.

The Chairman: He is right. The claw-back is there simply because the Canada Pension becomes the maximum Canada Pension at that—

Mr. Lynn: You also hit the maximum Canada Pension.

The Chairman: That is right, so you got maximum Canada Pension, Jerry.

[Traduction]

tenu du fait que les 25,000\$ représentent une augmentation de 50 p. 100, et que les 50,000\$ représentent une autre augmentation de 50 p. 100. Cependant, quand on arrive à 75,000\$, le chiffre donné ne semble pas concorder avec les trois autres.

Le président: C'est la récupération.

M. Pickard: D'accord. Merci.

M. Lynn: Que voulez-vous dire au juste?

Le président: La récupération est ce qui résulte du Régime de pensions du Canada.

M. Pickard: Je comprends. Très bien.

M. Horner: La proportion est de 14 p. 100 et de 19 p. 100 avant la récupération qui s'applique aux revenus dépassant 75,000\$.

M. Lynn: Monsieur, vous voulez dire que 43,000\$, c'est environ la moitié de 85,000\$?

M. Pickard: Non. Ce que je veux dire, c'est que la récupération s'applique aux revenus de 75,000\$ et plus. Cela me semble tout à fait raisonnable.

M. Lynn: Non, mais je croyais vous avoir entendu dire que... cela donne-t-il 50 p. 100?

M. Pickard: Les rapports semblent bien s'harmoniser jusqu'à 50,000\$. Mais, à partir de 75,000\$, ils ne concordent plus, ils semblent disproportionnés et...

M. Lynn: Excusez-moi, le rapport entre quoi et quoi?

M. Pickard: Le rapport est disproportionné par rapport aux autres, et c'est dû bien sûr à la récupération.

M. Lynn: Je ne suis pas sûr de quel rapport vous voulez parler. Excusez-moi.

M. Pickard: Prenons le chiffre 85, c'est-à-dire 85 p. 100 du revenu. À 12,000\$, le montant des prestations correspond à 85 p. 100 du revenu. À 25,000\$, le montant des prestations est exactement le même, de sorte que le pourcentage se trouve coupé de moitié.

M. Lynn: Donc 43 p. 100—vous voulez dire la moitié de 85 p. 100.

M. Pickard: Justement.

M. Lynn: Et 21 p. 100, c'est environ la moitié de 43 p. 100.

M. Pickard: Tout à fait. C'est à cause de la récupération que les chiffres ne se suivent plus, et je suppose que pour un revenu de 75,000\$, les prestations correspondraient à environ 18 p. 100 du revenu.

Le président: Il a raison. La récupération entre en ligne de compte simplement parce que l'on atteint le niveau maximal des prestations du RPC à ce...

M. Lynn: Vous atteignez le montant maximal du RPC.

Le président: En effet, alors vous avez la pension maximale, Jerry.

[Text]

Mr. Lynn: Well, 14% is pretty close to half of 29%.

Mr. Parker (Kootenay East): Have you any figures with regard to the private pensions on age? We have seen where people are getting their pensions at age 55. More and more people are going on pension and there are less people paying into a pension. While these figures may be high, we may not have the contributions going into the private schemes that have been going on in the past. Do you understand what I mean?

Mr. Lynn: Well, if they retire earlier they will not get as much, so there is not as much needs to be accumulated.

Mr. Parker: No, that is not my point. I do not want to go backwards, because we want to get on, but you go back to the beginning where we are talking about the \$330 billion a year—\$5.5 billion per year and building up, but with people taking their pensions now at 55 on many of the private schemes and so on, less people are paying in under the private schemes because of technology and so on.

Mr. Lynn: Why would there be less people paying in?

Mr. Parker: Because you have got less people working in many of the industries. I can look at one private pension scheme, say the railways. Because of the upgrading of the railways under their private pension schemes, their employee contribution is almost down by 40% compared to what it was 10 years ago. What I am saying here is that while they paid in and were paying in, that was a tax credit, because they were not paying taxes on it. Now many of them are getting their pensions at age 55. They are not paying in now and there are less people working. There is bound to be a less amount in the figures. Have you seen a drastic change in those figures?

Mr. Lynn: I do not know how they changed over time, but each plan is funded geared to each individual. Is your concern that there would not be the money there for some of the individuals who have retired?

Mr. Parker: No. What I am concerned about is your figure of \$5.5 billion a year that is being taxed. Is that a stable figure? I do not see how it could be, especially with the changes in the private pensions of many people taking their pensions at age 55 at the present time, not contributing now possibly to the extent they were, and fewer people working.

Mr. Horner: You are saying that the assets may be starting to turn down.

Mr. Parker: Right. Have you seen that indication?

[Translation]

M. Lynn: Eh bien, 14 p. 100 c'est à peu de chose près la moitié de 29 p. 100.

M. Parker (Kootenay-Est): Avez-vous des chiffres quant à l'âge des prestataires des régimes privés? Certains régimes permettent aux gens de toucher une pension dès l'âge de 55 ans. Il y a de plus en plus de prestataires et de moins en moins de cotisants. Même si ces chiffres sont élevés, les cotisations versées dans des régimes privés ne sont peut-être pas aussi élevées qu'elles l'étaient par le passé. Me comprenez-vous?

M. Lynn: Eh bien, si les gens prennent leur retraite plus tôt, leur pension ne sera pas aussi élevée, de sorte qu'il n'est pas nécessaire d'accumuler autant de fonds.

M. Parker: Non, ce n'est pas ce que je veux dire. Je ne veux pas retourner en arrière, car il faudrait avancer, mais si l'on revient au début, où il était question de 330 milliards de dollars par année—5,5 milliards par année plus les montants nécessaires pour constituer un fonds, on se rend compte que de plus en plus de participants à des régimes privés prennent leur retraite à 55 ans et qu'il y a de moins en moins de cotisants à ces régimes en raison des mutations technologiques, etc. . .

M. Lynn: Pourquoi y aurait-il moins de cotisants?

M. Parker: Parce que le nombre de travailleurs a diminué dans de nombreux secteurs de l'économie. Prenons comme exemple le régime de retraite des chemins de fer. À cause des progrès réalisés dans le domaine des chemins de fer, les cotisations des employés à ce régime de retraite privé ont diminué de presque 40 p. 100 par rapport à ce qu'elles étaient il y a 10 ans. Tant que les employés cotisaient au régime, ils avaient droit à un crédit d'impôt, puisque leurs cotisations échappaient à l'impôt. De nos jours, beaucoup d'employés prennent leur retraite à 55 ans. Ils ne cotisent plus au régime, et en outre le nombre de travailleurs a diminué. Il en résulte donc forcément un manque à gagner. Ces chiffres ont-ils changé radicalement?

M. Lynn: Je ne sais pas dans quelle mesure ils ont changé au fil des ans, mais chaque régime est capitalisé en fonction des besoins de chacun de ses participants. Vous inquiétez-vous du fait qu'il n'y aurait pas suffisamment d'argent pour verser des prestations à certains de ceux qui ont pris leur retraite?

M. Parker: Non. Ce qui m'inquiète, c'est votre montant de 5,5 milliards de dollars par an qui est assujéti à l'impôt. Ce chiffre est-il constant? Je ne vois pas comment il pourrait l'être, compte tenu des changements qui se sont produits, du fait que beaucoup d'employés prennent leur retraite à compter de 55 ans de nos jours, que le montant des cotisations n'est peut-être pas aussi élevé qu'il l'était et qu'il y a moins de travailleurs.

M. Horner: Vous voulez dire que l'actif aurait commencé à diminuer?

M. Parker: Justement. Avez-vous constaté une telle diminution?

[Texte]

Mr. Horner: No, there has not been. There has been a very strong growth in RRSPs. Many of the people who retire at 55 work part-time, or they retire from one job, collect a pension from that job, but they do some other work and they can mix.

Mr. Parker: So that figure is fairly stable.

Mr. Lynn: Well, with population growth. Even though there may be some people retiring earlier, with the population growth of the country there is probably a growing proportion getting into plans over time.

Mr. Horner: The baby boom is moving into the high saving years. There are more people moving into their 40s than are moving through 55 to 60 and starting to retire.

Mr. Parker: I am not talking about whether they are going to receive their pensions or not. It is the tax portion we are talking about.

• 1600

Mr. Lynn: But they are in fact working in both directions. With the growing population, you expect that number to go up alone, and if indeed a higher proportion of the population is going into plans, then. . .

Mr. Chairman, that was some background material. If we look at the beginning of page 7 regarding the proposed measures of Bill C-52, first of all, we would like to look at the objectives. Why are we doing this? What are we trying to achieve?

In a few simple words, of course, the reforms of the limits on tax-assisted retirement saving are aimed to have a fairer system, one that is flexible to meet the different circumstances people encounter throughout their careers, and that also provides effective limits on the extent to which people can take advantage of the system. We have identified, then, a number of areas in which changes have to be made in order to achieve those objectives.

First of all, the system should provide consistent limits on saving in different types of plans. The fact is that now the extent to which you can get tax assistance varies, whether you are in a defined benefit or a money purchase registered plan or whether you do it through RRSPs or deferred profit-sharing plans.

Second, you want to make sure the limit on an individual is the same whether he has one plan or a combination of plans, given the nature of his employment and the way he is planning for his retirement. You want to make sure all taxpayers have full access to the limits, regardless of their employment situation, whether they change jobs during the year or are unemployed for some of the year, as well as the generosity or the nature of their employers' plans. They can vary quite a bit. So you want to make sure all taxpayers have the same access to these

[Traduction]

M. Horner: Non. On constate une forte augmentation des cotisations aux REER. Parmi ceux qui prennent leur retraite à 55 ans, il y en a beaucoup qui continuent à travailler à temps partiel ou qui ont un autre emploi tout en percevant leurs prestations de pension.

M. Parker: Ainsi, ce chiffre est relativement stable.

M. Lynn: Eh bien, il faut tenir compte de la croissance démographique. Même si certains prennent leur retraite plus tôt, le nombre de participants au régime augmente sans doute en raison de la croissance démographique dans notre pays.

M. Horner: Les membres de la génération d'après-guerre sont maintenant à l'âge où ils sont le plus susceptible d'accumuler des économies. Il y a plus de gens qui approchent de la quarantaine qu'il y en a qui atteignent 55 ou 60 ans et qui commencent à prendre leur retraite.

M. Parker: Il n'est pas question ici de savoir si ces gens toucheront leur pension ou non. Il est plutôt question de l'aspect fiscal.

M. Lynn: Mais il y a en fait une évolution dans les deux sens. La croissance démographique fera augmenter le nombre des cotisants, mais si leur nombre augmente effectivement, alors. . .

Monsieur le président, ce sont là des renseignements généraux. Si nous nous reportons à la page 18 des mesures proposées dans le projet de loi C-52, nous aimerions tout d'abord examiner les objectifs. Pourquoi faisons-nous cela? Qu'espérons-nous accomplir?

En gros, la réforme des plafonds de l'épargne-retraite ouvrant droit à une aide fiscale vise à rendre le régime plus équitable, à le rendre aussi plus souple pour pouvoir tenir compte des aléas professionnels et à prévoir des limites effectives aux avantages que les contribuables peuvent tirer du système. Nous avons donc déterminé un certain nombre de changements qu'il y aurait lieu d'apporter afin de réaliser ces objectifs.

Premièrement, le système devrait prévoir des plafonds uniformes à l'épargne-retraite, quelle que soit la nature du régime. À l'heure actuelle, l'admissibilité à l'aide fiscale varie selon qu'on participe à un régime à prestations déterminées ou à cotisations déterminées ou que l'on assure sa retraite au moyen de REER ou de régimes à participation différée aux bénéfices.

Deuxièmement, la limite qui s'applique à un contribuable devrait être la même qu'il y ait un seul régime ou plusieurs régimes, compte tenu du cheminement de sa carrière et de la façon dont il aura décidé de planifier sa retraite. Il faut s'assurer que tous les contribuables aient droit à la cotisation maximale, quelle que soit leur situation professionnelle, peu importe qu'ils changent d'emploi en cours d'année ou qu'ils soient au chômage pendant une partie de l'année, et peu importe la générosité ou la nature du régime de l'employeur. Il peut

[Text]

limits, regardless of differing employment situations and employer plans.

Now, of course we are talking here about a multi-year phenomenon, obviously, when we are talking about saving over time for retirement, so you want to make sure recognition is given of the multi-year nature of retirement saving. You want to be able to accommodate buy-backs when people are able to, or benefit upgrades when a plan is able to upgrade the benefits in respect of earlier years.

Another important point is to permit people to catch up on their contributions when they have gone through some years where they were unable to contribute as much as they might like to have contributed. At the same time, of course, in this respect, you want to preclude one of the problems we are having with the present system; that is, there are ways in which some people can double up on their tax assistance and get double assistance, and that is one of the measures we want to preclude by the changes that are being put forward.

Another area one has to look at is the interplan transfers both of accumulated funds and the credits to one's account. People do change jobs and move, so there has to be the capacity for them to shift between plans. But you want to make sure that in doing so they are not able to circumvent the tax assistance limits and get greater amounts through such changes.

Finally, and very importantly, you want to prevent excess contributions and excess tax deferrals, and we will be looking at these further in a few minutes. But there are many ways this can be done under the present system, and one of the most important features of the proposal is to preclude quite a range of ways in which some people have the opportunity to circumvent and get more benefits out of the tax assistance measures.

So let us look at the shortcomings of the existing system. It is only because these many problems have been identified with the present system over the years that obviously the government is moving forward with comprehensive changes. I think it is quite clear to all those who have studied and looked at the system that the present system really fails to meet the criteria mentioned of getting a fair and flexible system and one that has really effective limits.

• 1605

Again, if we look at the limits on saving in different types of plans, we can see they can vary widely. The one readable part of the package that was put out, for those of you who have had a look at it, is the little booklet entitled "Pension Reform: Improvements in Tax Assistance for

[Translation]

y avoir des variations considérables entre les régimes des employeurs. Il faut donc faire en sorte que tous les contribuables aient droit au montant maximal des cotisations, quelle que soit leur situation professionnelle et quelle que soit la nature du régime de leur employeur.

Bien sûr, économiser pour sa retraite, c'est quelque chose qui se fait sur plusieurs années, alors il faut tenir compte de la nature pluri-annuelle de l'épargne-retraite. Il faut également permettre aux contribuables de racheter une partie de leur pension lorsqu'ils en ont les moyens ou encore d'améliorer leurs prestations lorsque leur régime leur offre cette possibilité à l'égard de leurs années de cotisation antérieures.

Il est également important de permettre des cotisations de rattrapage aux contribuables qui, pendant un certain nombre d'années, n'ont pas pu cotiser autant qu'ils auraient voulu. Par contre, il ne faut pas non plus perpétuer un des problèmes que pose le système actuel: certaines personnes arrivent à obtenir le double de l'aide fiscale à laquelle elles ont droit. C'est justement là une des lacunes que nous cherchons à corriger au moyen des changements proposés.

Une autre question qu'il convient d'examiner, c'est celle du transfert des crédits de pension et des prestations acquises d'un régime à un autre. Les gens changent effectivement d'emploi et déménagent, et il faut donc leur permettre de transférer leurs crédits d'un régime à un autre. Par contre, il faut éviter qu'ils puissent ainsi contourner les plafonds fixés pour l'aide fiscale et avoir droit à un bénéfice accru à cause de ces changements.

Enfin, et il s'agit d'une considération très importante, il faut éviter que le montant des cotisations et des reports d'impôt dépasse les limites prévues, question à laquelle nous reviendrons dans quelques minutes. Sous le régime actuel, ces plafonds peuvent être contournés de bien des façons, et le projet de réforme aura notamment pour effet de mettre fin à ces échappatoires qui permettent aux contribuables de contourner les plafonds et d'obtenir une aide fiscale plus importante que ce à quoi ils devraient avoir droit.

Examinons maintenant les lacunes du système actuel. De toute évidence, si le gouvernement a décidé de proposer une réforme en profondeur du système, c'est seulement à cause des nombreux problèmes qui ont été décelés au fil des ans. Tous ceux qui ont examiné le système actuel ont pu constater qu'il ne répond manifestement pas aux critères d'équité et de souplesse et qu'il ne permet pas d'imposer des limites effectives.

Encore une fois, si nous examinons les plafonds de cotisation de divers types de régimes, nous constatons qu'ils peuvent varier énormément. S'il est un document facile à comprendre parmi tous ceux qui ont été publiés, et certains d'entre vous s'en sont peut-être rendu compte,

[Texte]

Retirement Saving". The existing limits for the different types of plans are described in this booklet on pages 8, 9, and 10.

The way the limits are defined now for a defined benefit plan, the limit is on the pension benefit that can be received in retirement. However, for money-purchase plans, or RRSPs, the limit is defined in terms of the contributions one can make during the years he is working and contributing to the plan. For middle- and upper-income earners the pension benefit limits under a defined benefit plan are much more generous, when you put them in comparable terms, than the contribution limits under a money-purchase or an RRSP plan.

The variations I have been speaking about are illustrated on page 12 of the little booklet. Page 12 has chart 2, and there we show four different plans on a comparable basis, assuming a taxpayer earning \$55,000. You can see that depending on the nature of the plan or the combination of plans, some individuals are able to contribute considerably more in terms of the percentage of their earnings than people in other plans. I will refer to the significant one there, item 4, in a minute.

As I said, another thing we have to look at is the possibility of combining plans. For example, at present one can achieve maximum benefits under a plan under which the employee contributes nothing but all the contributions on his behalf are made by the employer. In that case he can get maximum benefits under the defined benefit plan, but the employee can then go and make full contributions of \$3,500 to an RRSP. If you see example 4 on page 12, you can see how in that plan, a plan where the employer pays all the benefits for the registered plan, the employee is able to make full RRSP contributions and he can achieve contributions of up to 23% of his earnings.

The Chairman: Is that where the employee makes the \$7,500 contribution?

Mr. Horner: No, just \$3,500.

Mr. Lynn: Not necessarily \$7,500. Say it is a 2% plan. Then it is whatever is required to fund it. But the employee does not have to make any contributions. In that case the employee can put \$3,500 into an RRSP.

The Chairman: That is assuming the defined benefit plan requirement does not require 2%.

Mr. Lynn: No, it can be a 2% plan.

The Chairman: It could be 2%?

Mr. Lynn: Yes, it can be a good, healthy plan. As long as the employer is paying all the contributions, the—

[Traduction]

c'est le livret intitulé «La réforme des pensions: Amélioration de l'aide fiscale à l'épargne-retraite». Les plafonds qui s'appliquent actuellement aux divers types de régimes sont décrits dans ce livret aux pages 10, 11 et 12.

À l'heure actuelle, les plafonds qui s'appliquent au régime à prestations déterminées correspondent au montant maximal des prestations qui pourront être touchées à la retraite. Dans le cas toutefois des régimes à cotisations déterminées et des REER, le plafond s'applique au montant des cotisations qu'un contribuable peut verser pendant sa vie active. Pour les contribuables à revenus moyen ou élevé, les plafonds qui s'appliquent aux prestations de retraite dans le cas des régimes à prestations déterminées sont bien plus généreux au bout du compte que les plafonds qui s'appliquent aux cotisations dans le cas des régimes à cotisations déterminées ou des REER.

Les variations dont je viens de vous parler sont illustrées à la page 13 du livret. Le graphique 2, à la page 13, compare les avantages de quatre types de régimes différents pour un contribuable gagnant 55,000\$. Comme vous pouvez le constater, certains contribuables peuvent, selon la nature du régime ou de la combinaison de régimes, cotiser une part bien plus importante de leurs revenus que les participants à d'autres régimes. Je vous expliquerai dans un moment l'exemple 4, celui qui retient davantage l'attention.

Comme je l'ai dit, il faut examiner les différentes combinaisons de régimes possibles. Ainsi, à l'heure actuelle, le contribuable le plus avantage est celui qui a un régime entièrement financé par l'employeur et qui n'exige aucune cotisation de la part de l'employé. Ce contribuable a droit au montant maximal prévu pour les régimes à prestations déterminées, mais il peut également verser le plein montant de 3,500\$ dans un REER. D'après l'exemple 4, à la page 13, vous pouvez voir que l'employé qui participe à un régime enregistré entièrement financé par son employeur peut verser le plein montant prévu au titre des cotisations à un REER, de sorte que son plafond de cotisation atteint 23 p. 100 de son revenu.

Le président: C'est à ce moment-là que la cotisation de l'employé peut atteindre 7,500\$?

M. Horner: Non, la cotisation maximale est seulement de 3,500\$.

M. Lynn: Pas nécessairement 7,500\$. Dans le cas d'un régime à 2 p. 100, tout dépend du montant nécessaire pour capitaliser le régime. Mais aucune cotisation n'est exigée de l'employé. Auquel cas celui-ci peut contribuer 3,500\$ à un REER.

Le président: Si le régime à prestations déterminées n'est pas un régime à 2 p. 100.

M. Lynn: Non, il peut s'agir d'un régime à 2 p. 100.

Le président: Ce pourrait être un régime à 2 p. 100?

M. Lynn: Oui, il peut s'agir d'un régime tout à fait solide. Pourvu que l'employeur paye toutes les cotisations, . . .

[Text]

The Chairman: Then the employee has complete room, has he not?

Mr. Lynn: Yes.

The Chairman: The full \$3,500.

Mr. Lynn: The \$3,500, yes.

The Chairman: What happens when the employer does not have to make a contribution under the current section, section 145 I think it is? Have you made a change in the act for this one? There is a slight change you have made? There is a provision where people with certain defined benefit plans in effect under current rules have the benefit of a defined benefit pension and make a contribution of \$7,500 to their retirement savings plan too?

Mr. William Holmes (Consultant, Department of Finance): There is an ambiguity in the section right now that some people interpret to allow them to—

The Chairman: Which Revenue Canada has allowed from 1987 through and you are trying to change retroactively on page 37 of this bill. Am I right?

Mr. Horner: That is correct.

The Chairman: You will be able to give me some answers on this retroactive change and how it was determined, will you?

Mr. Horner: Yes, we will.

The Chairman: I was wondering why the minister did not say this in the speech in the House. The press releases do not say it either. I was wondering why that was not disclosed.

• 1610

Mr. Horner: I do not know if we really want to get into that level of detail now.

The Chairman: Okay. I do not want you to get into that level of detail now, but I thought you would want to be warned.

Mr. Horner: It so happens we have spent 15 or 20 minutes talking about that very issue this afternoon.

The Chairman: I am sure you have. You can imagine where they came from first.

Mr. Sobeski (Cambridge): Would you back up a second and go again to page 12? So these are the existing rules that we are talking about?

Mr. Lynn: Yes.

Mr. Sobeski: Example one, RRSP only, for a taxpayer earning \$55,000, the most he can put into an RRSP is 20%. I assume this is earned income.

[Translation]

Le président: Alors l'employé a droit au plein montant, n'est-ce pas?

M. Lynn: En effet.

Le président: Au plein montant de 3,500\$.

M. Lynn: Oui, 3,500\$.

Le président: Que se produit-il aux termes de l'article actuellement en vigueur—je crois que c'est l'article 145—si l'employeur n'a pas à verser de cotisations? Avez-vous prévu de modifier la loi pour tenir compte de cela? Vous proposez un changement mineur, n'est-ce pas? Il existe une disposition selon laquelle les participants à certains régimes à prestations déterminées peuvent, en vertu des règles actuellement en vigueur, bénéficier d'un régime à prestations déterminées et contribuer également pour 7,500\$ à leur régime d'épargne-retraite?

M. William Holmes (conseiller, ministère des Finances): Dans sa formulation actuelle, l'article présente une certaine ambiguïté qui fait qu'on a pu l'interpréter de manière à...

Le président: C'est une anomalie que Revenu Canada tolère depuis 1987 et que vous essayez de corriger de façon rétroactive à la page 37 du projet de loi, n'est-ce pas?

M. Horner: Oui, vous avez raison.

Le président: Vous allez pouvoir me donner des précisions sur ce changement qu'on veut appliquer de façon rétroactive et sur la façon dont vous vous y êtes pris, n'est-ce pas?

M. Horner: Oui, certainement.

Le président: Je me demande pourquoi le ministre n'en a rien dit lors de son discours à la Chambre. Il n'en a pas été question dans les communiqués de presse non plus. Je me demande pourquoi ce changement n'a pas été mentionné.

M. Horner: Je ne sais pas si nous devrions vraiment entrer dans ce genre de détail maintenant.

Le président: D'accord. Je ne veux pas que vous entriez dans ce genre de détail maintenant, mais j'ai pensé qu'une mise en garde s'imposait.

M. Horner: En fait, nous avons consacré une vingtaine de minutes à ce sujet précisément cet après-midi.

Le président: Je n'en doute pas. Vous pouvez imaginer d'où cela venait à l'origine.

M. Sobeski (Cambridge): Pourrions-nous revenir en arrière un instant, à la page 13 plus précisément? Voilà donc les règles actuelles dont nous parlons?

M. Lynn: Oui.

M. Sobeski: La première case affiche le cas d'un contribuable qui gagne 55,000\$ et qui cotise uniquement à un RRSP. Le maximum qu'il puisse cotiser est 20 p. 100. Je suppose qu'il s'agit de 20 p. 100 du revenu salarial.

[Texte]

Mr. Lynn: He could put in a dollar maximum of \$7,500, and \$7,500 of \$55,000 is about 13.6%. You see, there is a dollar maximum as well as a percentage maximum. He hits the dollar maximum of \$7,500, and \$7,500 over \$55,000 gives you that percentage.

Mr. Sobeski: I know where I went wrong. I had \$11,000.

Mr. Lynn: And you took 20%, yes. But there is a dollar maximum as well.

Mr. Horner: And the person in example two is at \$7,000, so it is just a bit below.

Mr. Lynn: Which again is the dollar maximum.

Mr. Sobeski: Now, going over to defined benefit, you have a note at the bottom of the page. Could you explain the note? If the defined benefit is limited to \$3,500, are you also trying to show in the calculation an assumption on what the corporation's matching amount is eventually down the road, which you really have to take a real guesstimate at because of actuarial values and all that good stuff?

Mr. Lynn: The note is probably really more relevant to example four, where the employer pays all of the contributions. The limit there is on the benefits that can be received, and you have to convert that back to the contributions in order to relate it to the \$55,000 and make it comparable to the previous examples. If this is a 2% plan and he is earning \$55,000, he would get 2% of \$55,000. You multiply that by a factor of nine. It is a factor nine that is used to convert back from benefits to contributions. And then, as it says, there is a sum of \$600 put there in terms of. . . These are kind of average plans in order to take into account variations in the plan. So if you take 9 times 2% of \$55,000, subtract \$600, you get \$9,300, which gives you 16.9% of \$55,000. In that case, since as we said the employer is paying all of it, the employee can contribute the full amount of \$3,500 to an RRSP, and that gives you the other little white block at the top there, which I think is about 6.4%.

The Chairman: Would you explain the nine times calculation? Why do you use nine?

Mr. Lynn: The magic nine. It is significant in the whole scheme of things, Mr. Chairman.

The Chairman: I want you to explain it.

Mr. Horner: The starting point of the exercise is to try to have a limit that is consistent between different kinds of savings, different kinds of plans, and the two big types of plans are the defined benefit plans, in examples three and four, and the money purchase plans. Since the contributions to a defined benefit plan are variable from year to year, depending on funding experience and so on, we decided we needed to look at the defined benefits and have a conversion factor to say that if they got reasonable

[Traduction]

M. Lynn: Monétairement parlant, il peut contribuer au maximum 7,500\$ et 7,500\$ de 55,000\$, cela représente environ 13,6 p. 100. Il existe donc plafond monétaire et proportionnel. Il ne peut que cotiser 7,500\$ et cette somme représente un certain pourcentage de 55,000\$.

M. Sobeski: Je sais pourquoi je me suis trompé. Je me fondais sur 11,000\$.

M. Lynn: En outre, vous aviez calculé 20 p. 100. Cependant, il y a aussi un maximum pécuniaire.

M. Horner: Quant au contribuable de l'exemple 2, il peut cotiser 7,000\$, soit un tout petit moins.

M. Lynn: Encore une fois, il ne peut pas cotiser davantage.

M. Sobeski: Au bas de la page, il y a une note sur les RPA à prestations déterminées. Pouvez-vous m'expliquer cette note? Si les prestations déterminées sont limitées à 3 500\$ dois-je comprendre que vous essayez de tenir compte dans vos calculs de l'éventuel montant fourni en contrepartie par la société. À ce moment-là, ce ne peut être qu'une approximation étant donnée les valeurs actuarielles, etc.?

M. Lynn: La note en question s'applique surtout à l'exemple 4, où l'employeur paie toutes les cotisations. La limite vise les prestations qui peuvent être reçues et il faut calculer les cotisations et en déterminer le pourcentage par rapport à 55,000\$ pour pouvoir comparer ce cas aux autres. S'il s'agit d'un régime à 2 p. 100 et que le contribuable gagne 55,000\$, il obtiendrait 2 p. 100 de cette somme. Il faut multiplier cela par 9. En effet, on se sert du facteur 9 pour calculer les cotisations à partir des prestations. Et ensuite, comme vous pouvez le voir, on soustrait une somme de 600\$ pour—il s'agit de régimes très répandus et cette formule nous permet de tenir compte de diverses variantes. Si l'on multiplie 2 p. 100 de 55,000\$ par 9 et que l'on soustrait 600\$, on obtient 9,300\$, ce qui représente 16,9 p. 100 de 55,000\$. En l'occurrence, étant donné que l'employeur paie la totalité des cotisations, l'employé peut cotiser à un REER le montant intégral de 3,500\$. Et voilà ce qui vous donne la petite case en blanc en haut de la colonne. Je pense que cela représente environ 6,4 p. 100.

Le président: Pourriez-vous nous expliquer pourquoi on multiplie par 9? Pourquoi 9?

M. Lynn: Neuf, c'est un chiffre magique. C'est un chiffre très important dans l'univers, monsieur le président.

Le président: Je veux une explication.

M. Horner: Le but de cet exercice consiste à déterminer un plafond qui soit compatible entre les divers types d'épargnes et les divers régimes, notamment entre les deux grandes catégories de régimes, soit les régimes à prestations déterminées comme aux exemples 3 et 4, et les régimes à cotisations déterminées. Étant donné que les cotisations à un régime à prestations déterminées varient d'une année à l'autre selon les sommes investies et ainsi de suite, nous avons jugé nécessaire d'examiner la

[Text]

investment performance and if it is a typical sort of defined benefit plan, how much contribution would they have to put in year by year as a percentage of earnings to get the benefit that is being promised under that plan. We got actuaries to advise us how to do that and how to set up that sort of analysis. The result of it was that over a 35-year career, if you put in 18% of earnings you would fund a 70% pension, which would be a pension of 2% for each year. That is what led to the nine factor.

[Translation]

question sous l'angle des prestations déterminées. Nous avons donc établi un facteur de conversion qui nous permet de déterminer la cotisation annuelle que doit verser le contribuable, en pourcentage de ses revenus, pour obtenir les prestations promises en vertu de ce régime. Évidemment, cela vaut pour les cas où les investissements sont raisonnables et où il s'agit d'un régime à prestations déterminées typiques. Nous avons demandé à des actuaires de nous conseiller quant à la marche à suivre pour y arriver et le moyen d'effectuer ce genre d'analyse. Au bout de 35 ans de service, si vous avez investi 18 p. 100 de votre revenu salarial, vous avez accumulé un fonds de pension de 70 p. 100, ce qui représente une pension de 2 p. 100 par année. Voilà d'où vient le facteur neuf.

• 1615

Mr. Lynn: You could characterize it not as a Cadillac or a Volkswagen type of plan, but a good solid sort of Buick plan. You go through all the calculations, and the relationship between the contributions and the benefits—

The Chairman: What interest rate are you contemplating the plan earning?

Mr. Horner: A real rate of 3.5%, which is a pretty good estimate of what the real rate of return has been since the beginning of the 1950s. Some studies were done for the Lazar report, the federal government task force on pension reform, that looked into what real rates of return had been over a long period for pension funds that invested in a mix of equity and debt, mortgages and so on, and 3.5% real seemed to be the long-term experience. So the system has been based on that.

The Chairman: When you say 3.5% real, you mean 3.5% after inflation?

Mr. Horner: That is correct.

The Chairman: There are no taxes involved?

Mr. Horner: That is correct.

The Chairman: With interest factors on such stupid things as T-bills yesterday bidding at 12.25% on a three-month bill, are you not way off base?

Mr. Horner: For the moment, but when you are talking about a 35-year career you do not just look at what the experience of the last couple of years has been. It is really an expectation of what the experience will be over the upcoming 35 years.

The Chairman: Well, why do we not take the decade of the 1980s? The decade of the 1980s would not justify that.

M. Lynn: On pourrait faire une analogie en disant qu'il ne s'agit pas d'un régime de type Cadillac ou Volkswagen, mais plutôt d'un régime bien solide comparable à une Buick. On effectue tous les calculs, on établit le rapport entre les cotisations et les prestations. . .

Le président: Quel taux d'intérêt ce régime devrait-il rapporter?

M. Horner: Un taux d'intérêt réel de 3,5 p. 100, ce qui est une estimation assez juste du taux de rendement réel depuis le début des années 50. En vue de la rédaction du rapport du groupe de travail Lazar sur la réforme des pensions, le gouvernement fédéral avait commandé certaines études sur les taux réels de rendement à long terme pour les caisses de retraite qui ont investi à la fois dans des actions, des titres d'endettement, des hypothèques, etc., et il semble qu'à long terme, le taux de rendement réel soit de 3,5 p. 100. Nous avons donc fondé notre système là-dessus.

Le président: Lorsque vous dites 3,5 p. 100 en termes réels, vous voulez dire 3,5 p. 100 après le calcul de l'inflation?

M. Horner: C'est exact.

Le président: On ne tient pas compte de l'impôt?

M. Horner: C'est juste.

Le président: Étant donné que le taux d'intérêt sur des choses aussi stupides que les obligations du Trésor venant à échéance dans trois mois et émises hier s'établit à 12,25 p. 100, n'êtes-vous pas tout à fait à côté de la plaque?

M. Horner: Pour l'instant, mais lorsqu'on parle d'une carrière de 35 ans, on ne tient pas uniquement compte de la situation des deux dernières années. En fait, c'est ce à quoi on s'attend pour les 35 prochaines années.

Le président: Pourquoi ne pas se fonder sur l'expérience des années 1980? La décennie 80 ne justifierait pas cela.

[Texte]

Mr. Horner: That is correct, but it seems safer to take a longer perspective. For the decade of the 1970s, you are at zero.

The Chairman: Well, were you at zero—

Mr. Horner: For a lot of—

The Chairman: —for people who had no tax to pay? I agree that you were at zero or even minus something if you had tax to pay. But if you had no tax to pay, was there a period in which in fact returns were zero?

Mr. Horner: Yes.

Mr. Lynn: Real interest rates.

The Chairman: Real interest rates without taxes? Now, I agree with you that real interest rates with taxes were zero.

Mr. Horner: But there were periods with rising interest rates in which there were capital losses on bond holdings in the plans and the plans were holding a lot of debt and getting capital losses. Their rates of return were—I might be slightly exaggerating—negative in some years, and the average would be very slightly positive, if anything, through a substantial period in the 1970s.

The Chairman: So the guts of this bill, in terms of determining the contribution and determining the 18% of earnings, is based on the calculation of 9, which would give you a 3.5% real return?

Mr. Horner: It is assuming that you will get a 3.5% return, which means that if the rates of return stay higher we might be setting the money purchase limits too high relative to the defined benefits limits, whereas if the returns average out over the next 35 years at lower than 3.5% real we perhaps should have set the money purchase limits higher than we did. But it seemed like a reasonable basis. The system does not unwind if it is wrong; it is just that our idea of rough parity between the two sets of limits is based on that long-term assumption.

Mr. Lynn: You need that limit because the maximum limits now for RRSPs are in terms of contributions, but the maximum limit in respect of a defined benefit plan is on the contributions.

Mr. Horner: On the benefits.

Mr. Lynn: On the benefits, excuse me. We need a way of relating that. The actuarial study produced the factor of nine. That factor enabled us to describe the limits for all types of plans with a common denominator.

[Traduction]

M. Horner: C'est exact, mais il semble plus sûr d'adopter une perspective à plus long terme. Pour la décennie 70, il était de zéro.

Le président: Était-il de zéro. . .

M. Horner: Pour un grand nombre. . .

Le président: . . . pour ceux qui n'avaient pas d'impôt à payer? Je conviens que votre rendement était de zéro ou même au-dessous de zéro si vous deviez payer des impôts. Mais dans le cas contraire, y a-t-il eu une période où le rendement s'établissait à zéro?

M. Horner: Oui.

M. Lynn: On parle de taux d'intérêt réels.

Le président: De taux d'intérêt réels non assujettis à l'impôt? Je conviens avec vous que le taux d'intérêt réel assujetti à l'impôt s'établissait à zéro.

M. Horner: Il y a tout de même eu des périodes où les taux d'intérêt étaient à la hausse et où les régimes ont accusé des pertes en capitaux au titre de leurs portefeuilles obligataires. Les régimes avaient énormément de titres d'endettement et enregistraient des pertes en capital. J'exagère légèrement, mais leur taux de rendement a été négatif certaines années et pendant une bonne partie des années 1970, le taux de rendement moyen n'a été que très légèrement positif.

Le président: Essentiellement, pour ce qui est de déterminer la cotisation et de la fixer à 18 p. 100 du revenu salarial, on a utilisé le chiffre neuf, ce qui nous donne un taux de rendement réel de 3,5 p. 100?

M. Horner: On suppose que vous obtiendrez un rendement de 3,5 p. 100. Autrement dit, si le taux de rendement demeure plus élevé, cela signifie qu'on aura fixé le plafond des RPA à cotisations déterminées à un niveau trop élevé par rapport à celui des RPA à prestations déterminées. Par contre si le taux de rendement réel moyen au cours des 35 prochaines années s'établit à moins de 3,5 p. 100, il s'ensuit que nous aurions sans doute dû fixer le plafond des RPA à cotisations déterminées à un seuil plus élevé. Mais cela semble être une base raisonnable. Le système ne s'effondrera pas si cette hypothèse est fautive. Tout simplement, notre conception d'une parité approximative entre ces deux plafonds est fondée sur cette hypothèse à long terme.

M. Lynn: Il vous faut établir cette limite étant donné que le plafond maximal autorisé à l'heure actuelle au titre des REER est calculé en fonction des cotisations, alors que celui des régimes à prestations déterminées l'est en fonction des cotisations.

M. Horner: Vous voulez dire, des prestations.

M. Lynn: Oui, excusez-moi. Nous devons trouver une façon d'établir un lien. L'étude actuarielle nous a donné un facteur 9. Ce facteur nous a permis de préciser les limites pour tous les genres de régimes au moyen d'un dénominateur commun.

[Text]

[Translation]

• 1620

Another shortcoming in the present system arises from the fact that some taxpayers are denied full access to the limits, depending upon the nature of the plans they are in. The limits depend, in some cases, on the generosity of the employer-sponsored arrangement. If you have an employer with a deferred profit-sharing plan or a money-purchase plan—

The Chairman: Could you explain what you mean by deferred profit-sharing plan?

Mr. Horner: It is a creation of the Income Tax Act. It is in section 147. It was designed to encourage profit sharing, but it has the same tax treatment as a money-purchase pension plan: the contributions are deductible, the interest is sheltered, and the benefits are taxable when they are paid out. So the limits on defined benefit contributions have always been integrated to some extent with the pension limits.

The Chairman: What are the current levels in deferred contribution or deferred benefits?

Mr. Horner: The deductibility limits are up to \$3,500 per employee for an employer contribution. There are some problems here. It is attractive for employers to make non-deductible contributions in some situations. They may put another 15,000 in for an executive; they do not get the deduction for it, but the executive gets the benefit of the tax-free income growth.

The Chairman: And he does not pay tax on it?

Mr. Horner: No.

The Chairman: Let us go over that one slowly. You are saying that a company under the present system can deduct \$3,500 on a deferred profit-sharing plan.

Mr. Horner: But there is no requirement that they not put in any more money.

The Chairman: They could decide to put in any old amount they wanted to.

Mr. Horner: And some do.

Mr. Lynn: That is one of the measures that would be precluded.

The Chairman: They could put in another \$15,000 if they wanted to. And while they could not write it off as a business expense, like the first \$3,500, the employee would not have to pay tax on that money.

Mr. Lynn: The employer.

Une autre lacune du système actuel provient du fait que certains contribuables ne peuvent pas bénéficier complètement des limites permises, à cause de la nature des régimes auxquels ils participent. Les plafonds dépendent dans certains cas de la générosité des régimes auxquels cotisent les employeurs. Si un employeur offre un régime de participation différée aux bénéfices ou un régime de pension à cotisations déterminées. . .

Le président: Pouvez-vous nous expliquer ce que vous entendez par régime de participation différée aux bénéfices?

M. Horner: C'est un régime créé en vertu de la Loi de l'impôt sur le revenu, l'article 147. Il visait à encourager le partage des bénéfices, mais sur le plan fiscal, il est traité tout comme un régime de pension à cotisations déterminées, c'est-à-dire que les cotisations sont déductibles, les intérêts échappent à l'impôt et les prestations seront imposables au moment où elles seront versées. Ainsi donc, les plafonds concernant les cotisations à des régimes à prestations déterminées ont toujours été intégrés dans une certaine mesure aux plafonds relatifs aux pensions.

Le président: Quelles sont les limites actuelles en ce qui concerne les cotisations à des régimes de participation différée aux bénéfices?

M. Horner: Les cotisations de l'employeur sont déductibles jusqu'à concurrence de 3,500\$ par employé. Il y a là cependant certaines difficultés. Dans certains cas, des employeurs peuvent préférer faire des cotisations non déductibles. Ils peuvent choisir de cotiser 15,000\$ de plus pour un cadre, car même s'ils n'obtiennent pas de déduction, le cadre profite d'une augmentation de revenu exonérée d'impôt.

Le président: Et il n'a pas à payer d'impôt sur ce revenu?

M. Horner: Non.

Le président: Voyons cela un peu plus lentement. Vous dites que les dispositions actuelles permettent à une société de déduire 3,500\$ de cotisations à un régime de participation différée aux bénéfices.

M. Horner: Il n'est cependant plus interdit aux sociétés d'y cotiser davantage.

Le président: Une société pourrait donc décider de cotiser n'importe quel montant de son choix.

M. Horner: Et certaines le font.

M. Lynn: C'est l'une des mesures qui serait interdite.

Le président: Une société pourrait donc actuellement cotiser 15,000\$ de plus si elle le désirait. Et bien que la société ne pourrait pas déduire cette somme comme dépense d'exploitation, tout comme les 3,500\$, l'employé n'aurait pas à payer d'impôt sur cette somme.

M. Lynn: L'employeur.

[Texte]

The Chairman: No, I mean the employee.

Mr. Lynn: Yes, you are quite right—until he takes the benefits.

The Chairman: On the principal, he would not have to pay tax.

Mr. Lynn: Right.

The Chairman: He would get it in his fund and he would never have to pay tax on it until it came out.

Mr. Lynn: Right.

The Chairman: But nobody would have any deduction at the time of going in. And there would be no tax on the interest earned in that fund.

Mr. Lynn: No.

The Chairman: Why was this allowed to develop like that?

Mr. Horner: It is a question of the slow evolution of the system. It is only in looking at it systematically that we have really seen these various anomalies. Another one is that there is a penalty tax on employees of deferred profit-sharing plans and excess RRSP contributions, but it only kicks in if you contribute over \$5,500. So some employers have arrangements for employees to make non-deductible contributions to the DPSP of up to \$5,500 per year. They do not get an immediate deduction for it, but if they leave it in long enough they still get tax benefits.

• 1625

Mr. Lynn: Mr. Chairman, these are examples of ways in which people are able to get around the present limits, and we will come to these. There is an annex to the little paper here that I think identifies 14 of them, including the two of which you have just been speaking, so there are another dozen. We will get to those, and we can speak to them because they are significant. There is quite a number of them.

Mr. Sobeski: I want to come back to the chart again, just so that I get back into the thinking of pension plans.

On charts three and four with the defined benefit, what is the assumption you made for the length of employment of this employee? Obviously this is an employee who goes into a deferred profit-sharing plan for two years and leaves the company. What is the length of employment that you have to . . . ? Because that works into the equation too.

Mr. Horner: Well, no. Each of these is based on an annual accrual, so in the money purchase bars we are just looking at what the annual contribution is as a percentage

[Traduction]

Le président: Non, je parle de l'employé.

M. Lynn: Oui, vous avez tout à fait raison—jusqu'à ce que les prestations lui soient versées.

Le président: Il n'aurait cependant pas à payer d'impôt sur le principal.

M. Lynn: C'est exact.

Le président: Cette somme serait versée à son compte de pension et il n'aurait jamais à payer d'impôt jusqu'à ce qu'il l'encaisse.

M. Lynn: En effet.

Le président: Mais personne n'obtiendrait de déduction au moment où la cotisation serait versée. Et l'intérêt gagné sur ce compte de pension échapperait aussi à l'impôt.

M. Lynn: Oui.

Le président: Pourquoi une telle chose a-t-elle été permise?

M. Horner: C'est tout simplement dû à la lente évolution du régime fiscal. C'est seulement en examinant le tout de façon systématique que nous avons vraiment pu nous rendre compte de ces diverses anomalies. Une autre de ces anomalies est la sanction fiscale à laquelle s'exposent les employés qui cotisent trop aux régimes de participation différée aux bénéfices ou aux REER, mais c'est seulement si les cotisations dépassent 5,500\$. Certains employeurs prennent donc des dispositions pour que des employés versent des cotisations non déductibles à leur régime de participation différée aux bénéfices jusqu'à concurrence de 5,500\$ par année. Ils n'en obtiennent pas de déduction immédiate, mais s'ils y laissent cet argent suffisamment longtemps, ils en tirent quand même un avantage fiscal.

M. Lynn: Monsieur le président, ce sont là des exemples de moyens que les gens ont trouvé pour contourner les plafonds fixés, et nous pouvons vous parler de certains autres de ces moyens. Il y a une annexe au petit document où j'identifie 14 de ces moyens, notamment les deux dont vous venez de parler, en plus d'une douzaine d'autres. Ces moyens sont tellement nombreux qu'il vaut la peine que nous en parlions.

M. Sobeski: Je voudrais revenir au tableau, afin de mieux comprendre les régimes de pensions.

Dans les tableaux 3 et 4, où il est question de régimes à prestations déterminées, quelle hypothèse avez-vous utilisée quant à la durée d'emploi de cet employé? Il s'agit de toute évidence d'un employé qui cotise à un régime de participation différée aux bénéfices pendant deux ans, après quoi il quitte son employeur. Combien d'années d'emploi faut-il . . . ? Il faut aussi en tenir compte dans l'équation.

M. Horner: Non, chacune de ces colonnes est fondée sur l'accumulation annuelle des cotisations, aussi dans la colonne du régime de pension à cotisations déterminées,

[Text]

of earnings, and in the defined benefit ones we are translating the annual benefit accrual. For example, the maximum permissible is 2% of earnings for each year of service. For one year of employment that person would have accrued a pension of 2% of his covered salary of that year. We have taken that 2% and translated it up to contribution terms using this nine factor.

Mr. Sobeski: A defined benefit often works on your best three-year or five-year average. So if someone started working for a firm in 1960 their salary would have been, let us say, averaging \$7,000. Today they are ready for retirement, and let us say their average salary is now \$32,000. When they were making that contribution way back then, they were only contributing, we will say, \$350, but that \$350 is really the equivalent of the current, so I am trying to figure this out.

Mr. Horner: It is all really on the current year basis. If you look at somebody this year who is accruing some benefits in a plan, if he is in a defined benefit plan, and suppose he is going to retire in ten years, the benefits he gets in respect of this year will really be updated because they will be based on his wages just before he retires ten years from now. Whereas if he puts money into a money purchase plan it will earn interest, which will provide an inflation protection as well as some real interest gains. Both of them will move along ahead, so it is fair to look at the current year's wages.

Mr. Sobeski: So looking at this chart, then, I do not have to be concerned whether this is a 15-year, 25-year or 35-year employee?

Mr. Horner: No. That is right.

Mr. Lynn: We are speaking, Mr. Chairman, to the fact that some people do not have the opportunity to reach the full limits. The point you are making relates to example 5 on page 13. That is a case we started to speak to, where there is an employer who has a deferred profit-sharing plan, in which case he could contribute up to \$3,500, and the employee, at the same time, could have an RRSP, and he could contribute up to \$3,500, so he could have a maximum of \$7,000. If the employer only put in say \$500—any amount—something less than the \$3,500, the employee cannot contribute more. He is still limited to the \$3,500.

You have a case there, in example five, where this employee only has \$4,000 being put away in his name. That is \$500 by the employer and \$3,500 by himself. Because of the nature of the plan he is in he is precluded from getting up to levels other people are at. That is an example again of the sorts of problems of the present system we would like to get away from.

[Translation]

on y voit simplement les cotisations annuelles en tant que pourcentage du revenu, et dans les colonnes du régime de pension à prestations déterminées, on voit les prestations annuelles accumulées. Par exemple, le maximum permis est de 2 p. 100 du revenu pour chaque année de service. Pour chaque année d'emploi, la personne aurait accumulé une pension équivalente à 2 p. 100 de son salaire assuré cette année-là. Nous avons donc utilisé ce pourcentage-là et nous l'avons traduit en cotisations en utilisant le facteur 9.

M. Sobeski: Dans le cas d'un régime à prestations déterminées, les calculs sont souvent établis en fonction de la moyenne des trois ou des cinq meilleures années de salaire de l'employé. Supposons par exemple que quelqu'un ait commencé à travailler pour une entreprise en 1960, alors que le salaire moyen était d'environ 7,000\$, dirons-nous. Aujourd'hui, cette personne est prête à prendre sa retraite et son salaire moyen est de 32,000\$. Au début, les cotisations de l'employé n'étaient que de 350\$, dirons-nous, mais cette somme est en réalité l'équivalent des cotisations actuelles, que j'essaie de calculer.

M. Horner: En fait, on calcule tout en fonction de l'année en cours. Quelqu'un qui cotise cette année à un régime à prestations déterminées, et qui doit prendre sa retraite dans dix ans, verra ses prestations ajustées en fonction de son salaire pendant les années précédant immédiatement sa retraite dans dix ans. Par contre, s'il participe à un régime à cotisations déterminées, il gagnera de l'intérêt, ce qui protégera sa pension de l'inflation tout en lui assurant des revenus d'intérêt réels. Les prestations seront ajustées dans le cas des deux régimes, aussi est-il juste de tenir compte du salaire de l'année en cours.

M. Sobeski: Cela signifierait qu'en examinant ce tableau, je n'aurai pas à me demander si l'employé a 15 ans, 25 ans ou 35 ans de service?

M. Horner: Non. C'est exact.

M. Lynn: Nous parlons, monsieur le président, du fait que certains n'ont pas la possibilité de profiter pleinement des plafonds permis. L'exemple 5 à la page 15, porte justement sur ce dont vous parlez. C'est un cas dont nous avons commencé à parler, où un employeur offre un régime de participation différé aux bénéfices, auquel il pourrait cotiser jusqu'à 3,500\$, tandis que l'employé pourrait en même temps avoir un REER, auquel il pourrait cotiser jusqu'à 3,500\$, pour un maximum de 7,000\$. Si l'employeur ne verse que 500\$ ou tout autre montant inférieur à 3,500\$, l'employé peut alors cotiser davantage. Il est toujours limité cependant au plafond de 3,500\$.

L'exemple 5 présente le cas d'un employé dont la cotisation globale n'est que de 4,000\$, soit 500\$ versés par l'employeur et 3,500\$ par l'employé lui-même. Étant donné la nature du régime auquel il participe, l'employé ne peut profiter comme d'autres des plafonds permis. C'est encore là un exemple du genre de problèmes que nous aimerions voir disparaître du régime fiscal actuel.

[Texte]

There are other ways in which taxpayers are not able to contribute enough, or get up to the limits illustrated there. For instance, example seven is a case where you have a low benefit defined benefit plan. Here it is 1.5%, rather than 2% as being perhaps a standard, so that there is not as much being contributed on his behalf because he is going to get lower benefits ultimately, and yet he can contribute some RRSP, but not the full \$3,500. Similarly, you may have a plan that does not cover all of the employee's earnings, but some percentage or some fixed part of it.

• 1630

In all these examples we are talking about earnings of \$55,000, but in example 8 only \$40,000 of the earnings is pensionable. Again he is not able, through his RRSP, to make up a sufficient amount because he can only contribute up to a maximum of \$3,500, but it is less than that, depending on how much RRSP he has.

The Chairman: He has to make a contribution on the defined benefit plan too.

Mr. Lynn: Yes.

The Chairman: I see.

Mr. Lynn: That is right. For instance, in example 8 he puts \$1,800 in the defined benefit plan and that only leaves him \$1,700. There are various combinations like that. You can see cases where some people are not able to get up to as high levels as they might. One of the major purposes of the change is to make sure that everybody can get up to the same level, regardless of the system or types of plans they are in.

On page 9 we are still talking about the problems of the present system. They do not deal adequately with the multi-year phenomenon. Buy-backs of earlier years are available really only in defined benefit plans. You cannot do it if you are saving solely through RRSP or money purchase plans; and there of course it has to be a part of the defined benefit plan. It is not automatic.

Presently there is no way in which an individual can catch up on contributions if he is going through money purchase plans or RRSPs. If for some years he is unable to make any contributions, he loses that forever. There is no way he can catch up.

On the other hand, there are ways in which limits can be exceeded by some fortunate individuals. This is one of the 14 examples in the annex that we can speak to. This is the case where some people can contribute full amounts to an RRSP over a number of years, not joining the plan that is available to him with his employer. Then

[Traduction]

Il existe d'autres cas où les contribuables ne peuvent pas cotiser suffisamment, ou profiter des plafonds dont il est question ici. L'exemple 7 présente le cas d'un régime à prestations déterminées dont les prestations sont faibles. Le taux est fixé à 1,5 p. 100 alors que la norme est plutôt de 2 p. 100, aussi les cotisations versées au nom de l'employé ne sont-elles pas aussi élevées, puisque ces prestations seront en fin de compte moins élevées, mais l'employé peut tout de même cotiser à un REER, quoique le plafond autorisé soit inférieur à 3,500\$. Il existe aussi des régimes qui ne tiennent pas compte du revenu total de l'employé, mais seulement d'un certain pourcentage ou d'une portion déterminée de ses revenus.

Dans tous ces exemples, nous parlons d'un revenu de 55,000\$, mais dans l'exemple 8, le revenu ouvrant droit à pension n'est que de 40,000\$. Encore une fois, l'employé ne peut pas compenser les cotisations moins élevées versées au moyen d'un REER, parce qu'il ne peut cotiser plus de 3,500\$, et parfois même encore moins, selon les cotisations déjà versées au REER.

Le président: Il doit également cotiser à son régime à prestations déterminées.

M. Lynn: En effet.

Le président: Je vois.

M. Lynn: C'est exact. Dans l'exemple 8, l'employé verse 1,800\$ au régime à prestations déterminées, ce qui ne lui laisse que 1,700\$ pour un autre régime. Il existe différentes combinaisons semblables. Vous pouvez voir des cas où des gens ne peuvent pas profiter complètement des plafonds fixés. L'un des principaux objectifs des modifications proposées est de faire en sorte que tout le monde soit au même niveau, quel que soit le régime fiscal ou le régime de retraite auquel ils participent.

À la page 10, nous parlons toujours des problèmes qu'occasionne le système actuel. Les plafonds ne tiennent pas compte du caractère pluriannuel des régimes de pension et de l'épargne-retraite. Seuls les régimes à prestations déterminées permettent vraiment le rachat d'années de service antérieures. On ne peut pas le faire si l'on cotise uniquement à un REER ou à un régime à cotisations déterminées; il faut absolument participer à un régime à prestations déterminées. Ce n'est pas automatique.

À l'heure actuelle, les cotisations de rattrapage sont interdites à ceux qui épargnent au moyen d'un régime à cotisations déterminées ou d'un REER. Quelqu'un qui ne peut pas cotiser pendant certaines années perd à jamais la possibilité de le faire pour ces années. Il est impossible de rattraper ces années perdues.

Par contre, certains heureux élus peuvent trouver des moyens de dépasser les plafonds permis. C'est l'un des 14 exemples de l'annexe dont nous pouvons parler. C'est le cas où des personnes peuvent verser toutes les sommes permises à un REER pendant un certain nombre d'années, en ne participant pas au régime offert par

[Text]

eventually he joins the plan and he can buy back past service benefits for all years to which he made full RRSP contributions. So he can really build up quite a bit and get a tax assistance beyond what other people can.

Now, with respect to interplan transfers, this gets rather complex. When people change jobs and transfer their service credits, they can sometimes get a refund which they can turn into an RRSP, and at the same time they could be transferring into a richer plan. Depending on types of transfers from plan to plan, some people are able to get excessive tax deferrals that way.

Mr. Attewell: On the question of portability, I would like a little input on the nature of that problem and whether it is being addressed. I am thinking of people who work at such and such a place for six years, another place for seven, another place for three, and end up with literally no pension after—

Mr. Lynn: The Pension Benefits Standards Act approved portability arrangements.

The Chairman: That is right.

Mr. Horner: What it does is require the employer to give the employee options to take a commuted value, a cash-out of the value of the benefits to put them in a locked in RRSP, as opposed to staying in the plan and getting a deferred annuity in the plan. The Pension Benefits Standards Act accommodates but does not require the new employer to accept years of service from an old employer's plan, although there are arrangements for employers to do that.

Mr. Attewell: It does happen sometimes, does it?

Mr. Horner: Yes, particularly in the public sector where there is more similarity among the plans and more willingness to do that—teachers and so on.

Mr. Attewell: How is a person being helped?

Mr. Horner: First of all, move to earlier vesting means that there is an earlier right to benefits when you change. That is one important factor.

• 1635

Mr. Attewell: It moves down from what, 10 years?

Mr. Horner: From 10 or age 45 down to 2 years, after 2 years of employment. Then the second thing is that the employee has the option, do I want to leave my money in my former employer's plan and take an annuity starting

[Translation]

l'employeur. Lorsque ces employés décident finalement de participer au régime, ils peuvent racheter les prestations pour toutes les années antérieures de service pendant lesquelles ils versaient le maximum des cotisations permises au REER. On peut ainsi vraiment accumuler beaucoup d'argent et obtenir une aide fiscale supérieure à celle que reçoivent la plupart des gens.

Quant à la question des transferts entre régimes de retraite, elle est plutôt complexe. Lorsque des gens changent d'emploi et transfèrent leurs droits de pension, ils peuvent parfois obtenir un remboursement de cotisations qu'ils versent à un REER tout en ayant la possibilité de participer dorénavant à un régime plus généreux. Selon le type de transfert d'un régime à l'autre, certains peuvent ainsi obtenir des reports d'impôt excessifs.

M. Attewell: J'aimerais bien que vous m'expliquiez en quoi consiste le problème de la transférabilité des cotisations d'un régime à l'autre et que vous me disiez si les dispositions fiscales en tiennent compte. Je songe aux gens qui travaillent quelque part pendant six ans, puis ailleurs pendant sept ans et encore ailleurs pendant trois ans, et qui se retrouvent en fin de compte sans pension après. . .

M. Lynn: La Loi sur les normes de prestations de pension a approuvé les dispositions concernant la transférabilité.

Le président: C'est exact.

M. Horner: La loi exige que l'employeur offre à l'employé le choix entre le versement dans un REER bloqué de la valeur équivalente aux prestations qui lui sont dues, et la possibilité de laisser ses cotisations dans le régime afin d'obtenir une rente différée au moment de sa retraite. La Loi sur les normes de prestations de pension prévoit cela, mais n'exige pas que le nouvel employeur accepte les années de service pour lesquelles l'employé avait cotisé au régime de l'ancien employeur, bien que des dispositions permettent à l'employeur de le faire.

M. Attewell: Cela se fait parfois, n'est-ce pas?

M. Horner: Oui, en particulier dans le secteur public, où les régimes se ressemblent davantage et où l'on est plus disposé à le faire. . . je songe notamment aux enseignants.

M. Attewell: Quelle aide reçoit l'employé?

M. Horner: Tout d'abord, il acquiert plus tôt le droit au versement des prestations pour lesquelles il a cotisées avant de changer d'emploi. C'est un facteur important.

M. Attewell: C'est possible à partir de combien d'années, dix ans?

M. Horner: De l'âge de 45 ans ou 10 années de service à 2 ans, après deux années de service. Le deuxième élément important est que l'employé a le choix entre laisser son argent dans le régime de son ancien employeur

[Texte]

at retirement age or do I want to take the cash value of that money and put it in an RRSP or transfer it.

Mr. Parker: On that same topic, suppose someone were in a private pension scheme and lost his job, or were in an interval and transferred it into an RRSP, then started up with a company that had a registered plan. Could he transfer that from the RRSP into that registered plan if the company had the program in place?

Mr. Horner: Under our proposed rules he would be able to. Under the existing rules I think you can in some circumstances. I am not sure whether you always can.

Mr. Parker: Again, I think in the Pension Benefits Standards Act there was provision, was there not, to go temporarily into. . . ?

Mr. Holmes: The answer is yes, you can now transfer it from your RRSP to a pension plan—for example, if the employer were willing to give you benefits only if you brought in some money.

Mr. Lynn: Item 6 on page 9. We have been touching on some of these. The present rules and the way they have grown up, like Topsy, to some extent, do not provide an adequate basis for preventing excess contributions and tax deferrals. Control is needed over the ability to pick up past service pension credits. There is mention of interplan transfers. Some people can make a better deal. Keith mentioned the case of non-deductible contributions above the limits, which earn interest tax free. There can be excessive funding of defined benefit plans. As I say, there are a number of other problems. We will come to them at the end. The annex I think lists about 14 and gives a brief summary of them.

They are of the very nature you have been speaking of, Mr. Chairman. For example, we mention there the one I mentioned a minute ago, I think, quite a serious and dramatic one, where some employees are able to make maximum RRSP contributions for a number of years, then get into the plan and buy back the previous years and in a sense really double up on the credits.

Let us go on now to outline the proposed measures. Again they are in the context of the six points we have been making on the problems with the present system. Again, our aim is to have an overall system that is fair and more flexible and where there really are effective limits.

The idea is to introduce consistent limits for saving in different plans. We do not have that now. That is what we want to do. As we said, to provide adequate earnings replacement, the generally accepted target is a pension of 60% to 70% of the pre-retirement earnings, again after a

[Traduction]

et recevoir une rente à compter de l'âge de sa retraite, et retirer la somme équivalente à la valeur de ses cotisations afin de la verser dans un REER ou de la transférer dans son nouveau régime.

M. Parker: À ce propos, supposons qu'un cotisant à un régime de retraite privé perde son emploi ou se trouve entre deux emplois et transfère ses cotisations dans un REER, puis commence à travailler pour une entreprise qui offre un régime de pension agréé. Ce travailleur pourrait-il transférer dans le régime de pension de la société les sommes qu'il a versées à son REER?

M. Horner: Il pourrait le faire en vertu des dispositions proposées, mais je pense qu'en vertu des dispositions actuelles, ce ne serait possible que dans certains cas. Je ne suis pas certain si c'est toujours possible.

M. Parker: Encore là, je pense qu'une disposition de la Loi sur les normes de prestations de pension permettrait, n'est-ce pas, de verser temporairement. . . ?

M. Holmes: Il est vrai qu'on peut maintenant transférer des sommes d'un REER à un régime de pension. . . Par exemple, si l'employeur est disposé à accorder des prestations à l'employé uniquement s'il apporte une certaine somme d'argent.

M. Lynn: Nous avons abordé certains des points mentionnés au paragraphe 6 à la page 10. Les règles actuelles, malgré leur évolution à l'envers, dans une certaine mesure, ne permettent pas de prévenir efficacement les cotisations et les reports d'impôt excédentaires. Il convient de contrôler les droits de pension pour services passés. On parle aussi des transferts entre régimes et du fait que certains peuvent obtenir de meilleurs avantages. Keith a parlé du cas des cotisations non déductibles qui dépassent les plafonds et qui engendrent des revenus d'intérêt exempts d'impôt. Certains régimes à prestations déterminées peuvent être financés de façon excessive. Je répète qu'il existe un certain nombre d'autres problèmes. Nous y reviendrons à la fin. Nous en décrivons brièvement 14, je pense, dans l'annexe.

Il s'agit justement du genre de cas dont vous avez parlé, monsieur le président. Nous mentionnons par exemple le cas très grave dont j'ai parlé il y a un instant, où des employés peuvent verser des cotisations maximales à un REER pendant des années, pour ensuite s'inscrire à un régime et racheter les années précédentes, doublant ainsi en réalité ces crédits.

Passons maintenant aux grandes lignes des mesures proposées. Elles se rapportent aux six points dont nous avons parlé en exposant les problèmes qui découlent du système actuel. Nous visons encore une fois un système global conçu de manière à répondre aux critères d'équité, de souplesse et d'efficacité quant aux plafonds fixés.

Nous voulons fixer un ensemble de plafonds cohérents qui s'appliquera à l'épargne placée dans différents types de régimes. Cela n'existe pas à l'heure actuelle et c'est ce que nous voulons réaliser. Comme nous l'avons dit, afin d'assurer un remplacement convenable du revenu à la

[Text]

career of 30 to 35 years. The implication of that, of course, is that you have a maximum pension of 2% of each year of service. If you work 35 years you get 70%. Of course it does vary. It can be the last year, the average of the last two years, or variations on that.

We have mentioned that to fund annual benefits after retirement equal to 2% of earnings during the years you were working you need to contribute 9 times that 2%—i.e., 18%—of your earnings during your working years. So the annual contribution limit for money-purchase arrangements in the legislation will be set at 18% of earnings. As I say, that should be sufficient to fund a 2% maximum pension over the 30- to 35-year career.

The major discrepancy, again, as we mentioned, now is between defined benefit plans, where the effective contribution limit is about \$15,500. . . that is taking the limit on the benefit and converting it into a limit on the contribution. The present limit defined in the law is \$1,715 per year for the benefit. If you convert that back by the factor of 9 you get \$15,500. So that is a measure of the limit on contributions comparable to the limits on RRSPs and money purchase plans, which are \$7,000 or \$7,500.

• 1640

So under a defined benefit plan you have a much higher limit in fact than you do if you are saving only through RRSPs or a money purchase plan.

The dollar limits on saving and defined benefit and money purchase plans will be brought into line by freezing the defined benefit pension limit until 1995 and phasing in a higher contribution limit over the same period in respect of RRSPs and money purchase plans. So we are freezing the defined benefit plans, which are sort of the richest ones now, so they will not increase over time until 1995, and you bring the maximum limits for other forms of savings up to that level. So in 1995 the limit under all plans and combinations of plans will be \$15,500.

That means, incidently, Mr. Chairman, that in terms—

The Chairman: We are talking about a defined pension of \$60,750. What is the exact amount?

Mr. Horner: It is \$60,025.

The Chairman: So \$60,025 is what he can get. Can that be written so it is indexed for inflation?

[Translation]

retraite, l'objectif est d'obtenir une pension représentant de 60 à 70 p. 100 des gains avant la retraite, après 30 à 35 ans de vie active. Cela implique une pension maximale de 2 p. 100 par année de service. Quelqu'un qui travaille pendant 35 ans obtient une pension de 70 p. 100. Le montant de la pension peut varier, il peut être fixé en fonction du salaire de la dernière année, ou de la moyenne des deux dernières années, ou d'autres variantes.

Nous avons mentionné que pour financer des prestations annuelles après la retraite équivalentes à 2 p. 100 du revenu gagné pendant les années de travail, il faut contribuer 9 fois 2 p. 100, c'est-à-dire 18 p. 100, du salaire gagné pendant les années de travail. Le plafond annuel de cotisations pour les régimes à cotisations déterminées sera donc fixé en vertu de la loi à 18 p. 100 des gains. Cela devrait suffire à financer une pension maximale de 2 p. 100 sur l'ensemble d'une carrière de 30 à 35 ans.

Comme nous l'avons mentionné, l'écart important se situe encore une fois entre les régimes à prestations déterminées, pour lesquelles le plafond effectif des cotisations est d'environ 15,500\$. . . si l'on prend le plafond fixé pour les prestations et qu'on le convertit en plafond pour les cotisations. La loi actuelle fixe le plafond des prestations à 1,715\$ par année de service. En convertissant cette somme au moyen du facteur 9, on obtient 15,500\$. C'est donc une façon de mesurer le plafond pour les cotisations comparables au plafond dans le cas des régimes enregistrés d'épargne retraite et des régimes à cotisations déterminées, qui s'établissent à 7,000\$ ou 7,500\$.

Donc dans le cas d'un régime à prestations déterminées, le plafond est beaucoup plus élevé en fait que dans le cas d'un régime enregistré d'épargne retraite ou d'un régime à cotisations déterminées.

Les plafonds monétaires des régimes enregistrés d'épargne retraite, des régimes à cotisations déterminées et des régimes à prestations déterminées seront alignés en bloquant le plafond offert par le régime à prestations déterminées jusqu'en 1995 et en augmentant progressivement les plafonds de cotisations au cours de la même période dans le cas des régimes enregistrés d'épargne-retraite et des régimes à cotisations déterminées. Il y a donc un gel des régimes à prestations déterminées, qui sont en quelque sorte les plus riches actuellement, ce qui fait qu'ils ne subiront aucune augmentation d'ici 1995, jusqu'à ce que les plafonds des autres régimes aient atteint ce même niveau. Donc en 1995, pour tous les régimes et toutes les combinaisons de régimes, le plafond s'établira à 15,500\$.

Cela signifie, monsieur le président que. . .

Le président: Nous parlons d'un régime à prestations déterminées de 60,750\$. Quel est le montant exact?

M. Horner: Il est de 60,025\$.

Le président: Il peut donc recevoir 60,025\$. Cette pension maximale peut-elle être indexée?

[Texte]

Mr. Horner: Yes.

Mr. Lynn: The limits will be indexed starting in 1995.

The Chairman: I said can his \$60,025 pension be indexed for inflation in that figure. I am not talking about his contributions—

Mr. Lynn: I know, yes, right.

The Chairman: —because you have his contributions pegged and frozen until 1995. Can the plan administrators enrich the plan by providing inflation protection in the benefit?

Mr. Horner: Yes, they can now, and they will be able to under the system. The limit of \$1,750 per year of service or \$60,000 after 35 years is a first-year benefit limit and in the second year of retirement the benefit can be increased by anything up to the CPI.

The Chairman: So the first year has to be limited to \$60,025, but whatever they want to do on inflation protection after that is their baby.

Mr. Horner: They cannot super-index; they can index up to the limit of the growth in the consumer price index. That is the existing rule, and we are not planning to change that.

The Chairman: A number of pension plans do exactly that—a number of public service plans and teachers' pension plans and so on.

Mr. Horner: That is right. The proposals continue to accommodate full indexing, but to no greater an extent than the gross—

The Chairman: If 3.5% is the average return, and if it is 9 times 2 to get the 18%, how are they able to have enough money to do that without the employer making additional contributions to cover the indexing?

Mr. Horner: As Mr. Lynn said, the 9 factor or the 18% limit was based on what we called a Buick plan. We did not want to base it on the richest plan because it would be less typical, but we did not want to base it on a non-generous plan. The assumptions are set out in a little note at the very end of this booklet, and in terms of indexing, the assumption under the 9 factor is that the benefits would be indexed to CPI minus 1% from the time of the commencement of the benefit. So there is indexing already built into that contribution.

The Chairman: There is indexing built in—

Mr. Horner: Up to CPI minus one.

The Chairman: Well, what rate minus one? CPI minus one, but if you have 10% inflation—

[Traduction]

M. Horner: Oui.

M. Lynn: Les plafonds seront indexés à compter de 1995.

Le président: J'ai demandé si la pension maximale de 60,025\$ pouvait être indexée pour tenir compte de l'inflation. Je ne parle pas de ses cotisations. . .

M. Lynn: Je sais, oui, exactement.

Le président: . . . car ses cotisations sont bloquées jusqu'en 1995. Les administrateurs peuvent-ils enrichir le régime en indexant les prestations afin de les protéger de l'inflation?

M. Horner: Oui, ils peuvent le faire actuellement, et ils pourront le faire sous le nouveau régime. Le plafond de 1,750\$ par année de service ou de 60,000\$ après 35 ans de service représente une pension maximale pour la première année, mais dès la deuxième année la pension de retraite est indexée sur la hausse de l'indice des prix à la consommation.

Le président: Donc, la première année, la pension est plafonnée à 60,025\$, mais par la suite elle peut être indexée en cas d'inflation.

M. Horner: Elle ne peut être superindexée; elle ne peut être indexée que sur la hausse de l'indice des prix à la consommation. C'est la règle actuellement, et nous n'avons pas l'intention de la modifier.

Le président: C'est le cas actuellement de bon nombre de régimes de pension, par exemple le régime de pension de la fonction publique et celui des enseignants.

M. Horner: C'est exact. La pleine indexation sera toujours possible, sans toutefois dépasser le. . .

Le président: Si 3,5 p. 100 est le rendement moyen, et si l'on multiplie 2 par 9 pour arriver à 18 p. 100, comment auront-ils assez d'argent pour le faire sans que l'employeur doive augmenter ses cotisations pour couvrir l'indexation?

M. Horner: Comme M. Lynn l'a dit, le facteur de conversion «9» ou le plafond de 18 p. 100 est fondé sur ce que nous appelons le régime Buick. Nous n'avons pas voulu le fonder sur le régime plus riche, car il serait moins représentatif, mais nous n'avons pas voulu non plus le fonder sur un régime qui n'était pas généreux. Les hypothèses sur lesquelles ce rapport est basé sont énumérées à la toute fin de cette brochure, et pour ce qui est de l'indexation, on part du principe que la pension serait indexée sur la hausse de l'indice des prix à la consommation diminuée de 1 p. 100, une fois qu'elle commence à être versée. On a donc déjà prévu l'indexation.

Le président: L'indexation est prévue. . .

M. Horner: Sur la hausse de l'indice des prix à la consommation diminuée de 1 p. 100.

Le président: Et bien quel pourcentage diminué de 1 p. 100? La hausse de l'indice des prix à la consommation

[Text]

Mr. Horner: One presumes that the contributions will earn more in a high inflation world. The nominal rate of return will be higher as well. So the assumption is that the spreads between rates of return on the fund and the rate of inflation will stay on average over the accumulation period at 3.5%.

• 1645

The Chairman: So these figures are all calculated on a pension of \$50,025, indexed to inflation of CPI minus one.

Mr. Horner: The further assumption that is important is that the pension is assumed to start at age 63. So somebody saving in a money purchase plan who wanted to buy a pension starting at age 58 would have to accept a lower pension, whereas in some cases a defined benefit plan does not have to pay a lower pension for an early retiree. That is one advantage of a defined benefit plan that is remaining. We cannot make the limits perfect in all circumstances, and the comparison we have chosen to make is one of retirement at 63.

The Chairman: So the model plan we are talking about here, then, is a plan producing \$1,715 a month or \$60,025 a year, CPI minus one indexation, and it commences when you retire at age 63.

Mr. Horner: That is correct. The \$1,715 is per year of service, not per month.

The Chairman: Excuse me. Obviously, it has to be.

Mr. Lynn: The \$1,715 is in the law now.

The Chairman: Now, does this model plan involve integration of the Canada Pension Plan and the old age pension?

Mr. Horner: No, it does not.

The Chairman: So the retiree would be getting \$60,000, indexation CPI minus one, plus Canada pension, if applicable.

Mr. Horner: Yes.

The Chairman: Plus old age pension, if applicable.

Mr. Horner: If I could comment on why we chose to go that route, we thought about whether or not the target pension should be inclusive of CPP and OAS, and there were two reasons why we decided to make it additive. One is that this is the status quo and it would be extremely disruptive to try to change to a tighter rule. But the second is that if one said that the limits gave you a 70% pension including CPP, then the limits on RRSPs and private saving—if you remember the table back on page 5

[Translation]

diminuée de 1 p. 100, mais si l'inflation est de 10 p. 100. . .

M. Horner: On suppose que les cotisations auront un rendement plus élevé si le taux d'inflation est élevé. Le taux nominal de rendement sera lui aussi plus élevé. Donc on suppose que l'écart entre le taux de rendement du fonds de pension et le taux d'inflation se maintiendra en moyenne à 3,5 p. 100 au cours de la période d'accumulation.

Le président: Ces montants sont donc tous calculés à partir d'une pension de 50,025\$ indexée sur la hausse de l'IPC diminuée de 1 p. 100.

M. Horner: Une autre hypothèse importante, c'est que le versement de la pension commence à 63 ans. Donc dans le cas d'un cotisant qui participe à un régime à cotisations déterminées et qui veut commencer à toucher sa pension à l'âge de 58 ans, ce dernier devrait accepter une pension moins élevée, tandis que dans certains cas, celui qui participe à un régime à prestations déterminées ne reçoit pas nécessairement une pension moins élevée s'il prend une retraite anticipée. On a donc maintenu cet avantage des régimes à prestations déterminées. Nous ne pouvons faire en sorte que les plafonds soient parfaits en toutes circonstances et nous avons choisi d'établir cette comparaison avec le versement de la pension à 63 ans.

Le président: Le régime modèle dont nous parlons alors est un régime qui produit 1,715\$ par mois ou 60,025\$ par an, indexé sur la hausse de l'IPC diminué de 1 p. 100, et dont le versement commence à 63 ans.

M. Horner: C'est exact. Il s'agit de 1,715\$ par année de service, non pas par mois.

Le président: Excusez-moi. Cela est évident.

M. Lynn: La loi prévoit actuellement 1,715\$ dollars.

Le président: Ce régime modèle est-il intégré au Régime de pensions du Canada et à la sécurité de la vieillesse?

M. Horner: Non, il ne l'est pas.

Le président: Donc le retraité recevrait une pension de 60,000\$ indexée sur la hausse de l'indice des prix à la consommation diminuée de 1 p. 100, plus le Régime de pensions du Canada, s'il y a lieu.

M. Horner: Oui.

Le président: Plus la sécurité de la vieillesse, s'il y a lieu.

M. Horner: J'aimerais vous expliquer brièvement pourquoi nous avons choisi cette option. Il y a deux raisons pour lesquelles nous avons décidé de ne pas intégrer le régime au RPC et la sécurité de la vieillesse. D'abord, nous avons pensé qu'il serait préférable de garder le statu quo car nous aurions extrêmement perturbé les choses en essayant de resserrer la règle. Ensuite, si la pension maximale incluant les prestations en vertu du Régime de pensions du Canada doit s'établir à

[Texte]

where the replacement rates under CPP and so on are quite high for a low-income person—would have to be very, very low, much less than 18%, and that would be a very regressive change.

Mr. Lynn: We have just been speaking, then, to the first fundamental feature of the measure, and that is to get consistent limits on the tax assistance across the different types of plans. The second fundamental feature, then, is to have a uniform comprehensive limit to govern saving in the combinations of plans. The way this is done is that each year there will be determined a number called a pension adjustment. For want of a better name, it is called a pension adjustment. In any event, there will be determined—

Mr. Horner: The name was chosen by a former member of this committee.

The Chairman: That is right.

Mr. Lynn: In any event, each year there will be determined, for all those who are accruing benefits in employer-sponsored plans, a pension adjustment.

Mr. Attewell: Was he an actuary?

Mr. Lynn: I believe he was.

Mr. Attewell: Only one actuary has ever been elected, so I think I know who it is.

The Chairman: It is a former member of this committee.

Mr. Lynn: Now, for a money purchase plan, the pension adjustment is simply the sum of the employer and employee contributions in that year in respect of the plan.

The Chairman: That is easy.

Mr. Lynn: That is straightforward, right. Now, for a defined benefit plan, the pension adjustment is a measure, again in contribution terms—because that is what we are working in, contribution terms—of the benefits earned by the plan member in that year. That means you have to convert the benefits, which are described in the defined benefit plan, back into contribution terms, and that is where the factor 9 is used. You convert that back by the factor 9.

I guess that little footnote, Keith, you are referring to on page 26 describes the PA formula, the pension adjustment formula, for a defined benefit plan. Essentially, it is nine times the benefit entitlement, and minus the \$600, which is a factor to take into account essentially variations in the specific plans from the model plan you were just talking about.

• 1650

The Chairman: Are we not going to have a problem on defined benefit plans when we wind up with a number of

[Traduction]

70 p. 100 du revenu salarial, alors, si vous vous reportez à la page 6 vous verrez que les taux de remplacement assurés par les pensions publiques sont assez élevés pour une personne ayant un faible revenu, de telle sorte que les plafonds dans le cas des régimes enregistrés d'épargne-retraite et des régimes privés devraient être très peu élevés, bien moins que 18 p. 100, ce qui représenterait un changement très régressif.

M. Lynn: Nous n'avons parlé que de la première caractéristique fondamentale de cette mesure qui consiste à uniformiser les plafonds qui limitent l'aide fiscale ou différents types de régimes. La deuxième caractéristique fondamentale consiste à établir un plafond global uniforme qui régit l'épargne placée dans un ensemble de régimes. Chaque année, on calculera ce qu'on appelle le facteur d'équivalence. Faute de terme plus juste, on l'a appelé facteur d'équivalence. Quoi qu'il en soit, on calculera. . .

M. Horner: Le terme a été choisi par un ancien membre de notre Comité.

Le président: C'est exact.

M. Lynn: Quoi qu'il en soit, chaque année, on calculera un facteur d'équivalence pour tous ceux qui acquièrent des prestations dans un régime d'employeur.

M. Attewell: Était-il actuaire?

M. Lynn: Je le crois, oui.

M. Attewell: Il n'y a qu'un seul actuaire qui ait été élu député, alors je pense savoir de qui il s'agit.

Le président: C'est un ancien membre de notre Comité.

M. Lynn: Dans le cas d'un régime à cotisations déterminées, le facteur d'équivalence correspond tout simplement à la somme des cotisations de l'employeur et de l'employé versées au cours de l'année en question.

Le président: C'est facile.

M. Lynn: Cela est très simple. Dans le cas d'un régime à prestations déterminées, le facteur d'équivalence traduit en cotisations—puisque nous parlons ici de cotisations—les prestations acquises par le cotisant au cours de l'année. Cela signifie qu'il faut convertir en cotisations les prestations qui sont décrites dans le régime à prestations déterminées, et c'est là qu'on utilise le facteur 9.

Vous trouverez une explication de la formule du calcul du FE pour un régime à prestations déterminées au bas de la page 30, comme vous le disiez, Keith. Essentiellement, la formule est de neuf fois le droit à prestation, moins 600\$. La déduction de 600\$ vise à tenir compte des variations des divers régimes par rapport au régime modèle dont vous venez de parler.

Le président: Est-ce qu'on ne va pas avoir un problème lorsqu'on se retrouvera avec de nombreux régimes à

[Text]

these plans with employers saying we do not have to contribute this year because there is enough earnings in the plan to keep everybody actuarially sound; as a matter of fact, we have a surplus in the plan; we want to get the surplus paid out to us? What do you do when there is a surplus in the plan? Do you say there is no contribution that year, therefore, my friend, Mr. Employee, you are entitled to contribute \$7,500, or \$8,000, or whatever it is?

Mr. Horner: No, that is exactly why we have chosen this approach, because the individual's RRSP room will be 18% of earnings minus this pension adjustment. But the pension adjustment is determined from the benefit formula, not the employer's contribution in the year.

The Chairman: Oh, the benefit formula.

Mr. Horner: That is right. Take the simplest case. If the benefit was 2% and there is no offsets for CCP, it would be just 2% of the person's earnings times nine, minus this flat \$600. That would be the pension adjustment, and that would be the amount of—

The Chairman: Why do we get 2%—

Mr. Horner: If that is the benefit formula.

The Chairman: —times 9 minus \$600?

Mr. Horner: If 2% is the benefit formula and the benefits that he has earned for that year are 2% of his earnings in that year, then the PA is 2% of his earnings in that times 9, to convert it into contribution terms, with this \$600 adjustment.

The Chairman: What is this \$600 adjustment all about? Is that out of the air somewhere?

Mr. Horner: It is really a calibration number to get the... the starting point of this idea was instead of having, say, a flat contribution limit for people in all defined benefit plans, let us recognize differences in the benefit rates, but have a little bit of allowance that recognizes... it is sort of an ad hoc allowance for differences in the quality of benefits, the degree of indexation, the richness of survivor benefits and—

The Chairman: Well, what does \$600 give you? Why would you not give \$400 or \$1,000 to him?

Mr. Horner: It really started out actually as an ad hoc allowance of \$2,000, which was going to cover that allowance, plus deal with CPP integration, and then we realized that employers could play games with that by restructuring their plans. So we ended up taking the CPP integration out of that ad hoc allowance and putting it in explicitly—

The Chairman: Supposing there is no CPP integration? I mean, you have a defined benefit plan and keep your own CPP and old age pension. Do they lose \$600 too?

[Translation]

prestations déterminées et que les employeurs diront qu'il ne sont pas obligés de cotiser cette année parce que le rendement du régime est suffisant pour assurer sa solidité actuarielle; lorsqu'ils diront en fait, nous avons un surplus dans le régime et nous voulons que ce surplus nous soit payé? Que faites-vous lorsqu'il y a un surplus dans le régime? Dites-vous qu'il n'y aura pas de cotisations cette année et que par conséquent l'employé pourra faire des cotisations de 7,500\$ ou 8,000\$?

M. Horner: Non, c'est exactement la raison pour laquelle nous avons choisi cette formule, car les cotisations du particulier à un REER s'établiront à 18 p. 100 des gains moins le facteur d'équivalence. Mais le facteur d'équivalence est calculé à partir de la formule de prestations, non pas à partir des cotisations versées par l'employeur au cours de l'année.

Le président: Ah, la formule des prestations.

M. Horner: C'est exact. Prenez le cas le plus simple. Si la pension est de 2 p. 100 et qu'il n'y a pas de réduction pour cotisations au RPC, alors elle s'établira à 2 p. 100 du revenu salarial multiplié par neuf moins 600\$. Ce serait le facteur d'équivalence, soit le montant de... .

Le président: Pourquoi est-ce 2 p. 100... .

M. Horner: Il s'agit de la formule pour un régime à prestations déterminées.

Le président: ... multiplié par neuf moins 600\$?

M. Horner: Si 2 p. 100 est la formule pour un régime à prestations déterminées et si les prestations acquises pendant cette année s'établissent à 2 p. 100 du revenu salarial de l'année, alors le facteur d'équivalence pour convertir le tout en cotisations est de 2 p. 100 du revenu salarial multiplié par neuf, moins 600\$.

Le président: Qu'est-ce que cette déduction de 600\$? D'où sont-elle?

M. Horner: Il s'agit en fait d'un nombre permettant de mesurer... plutôt que d'avoir, disons, une cotisation maximale forfaitaire pour tous ceux qui participent à un régime à prestations déterminées, nous avons voulu tenir compte des différences entre taux de prestations, tout en prévoyant une déduction afin de tenir compte des différences entre prestations de pension, niveau d'indexation, prestations de survivant etc. . .

Le président: Mais pourquoi 600\$? Pourquoi pas 400\$ ou 1,000\$?

M. Horner: En fait, tout cela a commencé par une déduction spéciale de 2,000\$ qui devait tenir compte de cette différence plus de l'intégration au RPC, puis nous nous sommes rendu compte que les employeurs pourraient contourner cette déduction en restructurant le régime. Nous avons donc éliminer de cette déduction spéciale l'intégration au RPC et nous l'avons ajoutée explicitement... .

Le président: Supposons que le régime n'est pas intégré au RPC? Disons qu'une personne a un régime à prestations déterminées et qu'elle a droit à son propre

[Texte]

Mr. Horner: No, \$600 is a gain for the... it is extra RRSP room. Somebody could have a full 2% plan with no CPP integration and their RRSP room will be \$600.

The Chairman: And the other guy has CPP integration and he—

Mr. Horner: He will get \$600 plus some more because his benefit rate effectively will be less than 2% on the earnings that are covered by the Canada Pension Plan or Quebec Pension Plan. The formula will throw out a lower pension adjustment even before the \$600 allowance because his benefit rate is really not 2%, it is really say 1.3% on the first \$29,000 of earnings and 2% on earnings above that. That is how CPP integration usually works, so he will get more.

The Chairman: So you think these calculations are easy for every employee, do you?

Mr. Lynn: I was just going to say, Mr. Chairman, that these will be made by the employers and reported on the T-4 slips that go to individuals. The calculation really is not drastically different from the calculations they have to make now in order to determine what an employee should be contributing. We still now have to take that into account if they are integrated with the CPP-QPP. All it would be doing is taking the benefit they are getting, which they have to calculate now, multiplying by 9, and subtracting the \$600.

• 1655

The Chairman: Do most of these plans, these employer-employee pension plans together, not have a fixed fee for the employee to contribute per dollar of earnings and the employer either puts in or takes out, as the case may be, because it is the plan founder?

Mr. Lynn: Mr. Chairman, you still have to work with the benefit back to the contributions. You have to determine what his benefit is, i.e. 2% of his earnings—you know what his earnings are—and if it is less than the adjustment for the integration of the CPP that is done now, and you multiply that by nine.

Mr. Horner: Of the between 4.5 million and 5 million pension plan members, about 3.5 million are in contributory pension plans. Most of those plans are integrated with the CPP, and in that case the contribution rate is really two rates, in most cases. It is one rate on earnings up to the CPP-covered earnings, \$29,000, and a different rate on contributions above. So to determine the employee contribution, which the employer already has to report on the T-4 slip to give the employee a deduction, it is really much the same kind of calculation. It is really one percentage of earnings up to \$29,000 and a different percentage on earnings above. The additional complexity

[Traduction]

RPC et à la sécurité de la vieillesse. Est-ce qu'elle perd 600\$ également?

M. Horner: Non, 600\$ est un gain pour le... cela permet une contribution plus élevée à un REER. Une personne peut avoir un régime à prestations déterminées à 2 p. 100 qui n'est pas intégré au RPC et elle pourra verser 600\$ de plus dans son REER.

Le président: Mais si une autre personne a un régime intégré au RPC et... .

M. Horner: Cette personne aura 600\$ et plus car son taux de prestations sera en fait inférieur à 2 p. 100 du revenu salarial couvert par le Régime de pensions du Canada ou par le Régime de rentes du Québec. La formule donnera un facteur d'équivalence moins élevé même avant la déduction de 600\$ car son taux de prestations n'est pas vraiment de 2 p. 100, mais de 1,3 p. 100 en réalité pour la première tranche de 29,000\$ de gains et de 2 p. 100 pour le reste. C'est habituellement de cette façon que l'intégration au RPC fonctionne, alors elle aura davantage.

Le président: Vous pensez donc que ces calculs seront faciles à établir par tous les employés, n'est-ce pas?

M. Lynn: Monsieur le président, j'allais justement dire que ces calculs seront effectués par les employeurs et qu'ils seront inscrits sur les feuillets T-4 que reçoivent les particuliers. Ces calculs ne sont pas tellement différents de ceux qu'ils doivent faire actuellement pour déterminer les cotisations d'un employé. Actuellement, il faut tenir compte de l'intégration des régimes au RPC ou au RRQ. Désormais, il faudra tout simplement qu'ils multiplient par 9 la prestation de pension, calculée de toute façon actuellement, et ensuite, qu'ils en soustraient les 600\$.

Le président: La plupart de ces régimes de pension contributifs ne prévoient-ils pas que l'employé devra payer des cotisations qui s'établissent à un certain pourcentage de ses gains, et l'employeur peut contribuer ou retirer, selon le cas, car il est le fondateur du régime?

M. Lynn: Monsieur le président, il faut quand même partir des prestations pour calculer les cotisations. Il faut déterminer à combien s'établissent ces prestations, c'est-à-dire 2 p. 100 de ses gains, et si ce montant est moins élevé que la compensation accordée pour l'intégration du RPC, il faut le multiplier par 9.

M. Horner: Des 4,5 ou 5 millions de cotisants à un régime de pension, environ 3,5 millions participent à un régime contributif. La plupart de ces régimes sont intégrés au RPC, et dans ce cas le taux de cotisation est en réalité double, la plupart du temps. Un premier taux s'applique à une première tranche de revenu salarial de 29,000\$, c'est-à-dire les gains couverts par le RPC, et un deuxième taux s'applique aux gains au-dessus de cette somme. Donc, pour déterminer les cotisations de l'employé, que l'employeur doit déjà inscrire sur le feuillet T-4 pour indiquer une retenue à la source, l'employeur doit en fait effectuer à peu près le même genre de calcul. Un premier

[Text]

in the PA is just multiplying those two different percentages, but multiplying percentages by nine and then subtracting the flat \$600. In terms of the nature of the calculation it is really very similar.

The Chairman: I am not a very bright guy. You left me at the second corner. Let me go over this slowly.

Mr. Horner: If you have somebody earning \$50,000 and you think of them as being in a—

The Chairman: His contributions can be 18%.

Mr. Horner: No—

The Chairman: The money available to put in the plan... to save is 18% of \$50,000.

Mr. Horner: I was really trying to address a different question, which is how difficult it would be for employers to figure out how to calculate and report the pension adjustment. My point was that the calculation is very analogous to the calculation they already have to make to report the employee's contribution to the plan, which they already do on the T-4.

The Chairman: Wait a minute. When they are reporting the employee's contribution to the plan, surely to goodness they report the employee's actual deducted contribution.

Mr. Horner: They have to calculate what it is to report—

The Chairman: But they deduct it every week, from the guy's pay packet.

Mr. Horner: But each week they have to have a formula for how much he should contribute.

The Chairman: The formula is based on his earnings.

Mr. Horner: And so is the PA.

The Chairman: Maybe half of 1% of his earnings, or 1% of his earnings.

Mr. Horner: It is a certain percentage of earnings up to a certain pay level and a different percentage of earnings above that pay level.

The Chairman: Or an integrated percentage. Let us assume these employees are all earning less than \$29,000.

Mr. Horner: My point was that the calculation is almost the same as the calculation of the PA. It is exactly the same kind of formula.

Mr. Lynn: To calculate his contribution you have to take maybe 6% or 7% of the number. To calculate his PA you take 9 times 2 times the same number. Twice that is his benefit entitlement for that year, and you multiply it by the factor 9. So the core of the little calculation is the same as the employee has to do now to calculate the

[Translation]

pourcentage s'applique dans le cas d'une première tranche de 29,000\$ et un pourcentage différent pour les gains au-dessus de cette somme. La formule du calcul du FE est un peu plus compliquée en ce sens qu'en plus de multiplier ces deux pourcentages, il faut multiplier ces pourcentages par 9, puis soustraire la somme de 600\$. C'est en somme un calcul très semblable.

Le président: Je ne suis pas très brillant. Vous m'avez déjà perdu depuis un petit moment. Re commençons plus lentement.

M. Horner: Disons qu'une personne gagne 50,000\$. . .

Le président: Ses cotisations peuvent s'établir à 18 p. 100.

M. Horner: Non. . .

Le président: Les cotisations qu'il peut verser au régime. . . s'établissent à 18 p. 100 de 50,000\$.

M. Horner: Je tentais en fait de vous expliquer autre chose, c'est-à-dire s'il serait bien difficile pour les employeurs de calculer le facteur d'équivalence. Je disais donc qu'il s'agit d'un calcul très semblable à celui qu'ils doivent déjà effectuer pour indiquer les cotisations que l'employé verse au régime, ce qu'ils font déjà sur le feuillet T-4.

Le président: Un instant. Lorsqu'ils indiquent les cotisations que l'employé verse au régime, ils doivent certainement indiquer les cotisations de l'employé qui ont été retenues à la source.

M. Horner: Ils doivent calculer le montant de ces cotisations pour les indiquer. . .

Le président: Mais ces cotisations sont retenues à la source, chaque semaine.

M. Horner: Mais chaque semaine ils doivent avoir une formule pour calculer les cotisations.

Le président: La formule est basée sur les gains.

M. Horner: La formule permettant de calculer le facteur d'équivalence l'est également.

Le président: C'est peut-être 1/2 p. 100 ou 1 p. 100 de ses gains.

M. Horner: Il s'agit d'un certain pourcentage des gains jusqu'à un certain niveau, et d'un pourcentage différent au-dessus de ce niveau.

Le président: Ou un pourcentage intégré. Disons que les employés gagnent tous moins de 29,000\$.

M. Horner: Il s'agit d'un calcul presque semblable à celui qui détermine le facteur d'équivalence. C'est exactement le même genre de formule.

M. Lynn: Les cotisations représentent 6 ou 7 p. 100 de ce chiffre. Pour calculer le facteur d'équivalence, il faut multiplier ce même chiffre par 2 puis par 9. En multipliant par deux on obtient le droit à prestation pour l'année, et on multiplie par le facteur 9. Il s'agit donc essentiellement du même petit calcul que l'employeur

[Texte]

employee's contribution, or the weekly withholding contribution.

So there are a couple more multiplications, but to the extent that any complication arises from the CPP integration, or if there are other wrinkles of that sort, that has to be done now. Now you multiply by 6.5% or whatever it might be. But to calculate his PA you would multiply it by 2, if it is a 2% benefit plan, or 1.5 if it is 1.5%, and then by the factor 9. So you are still multiplying a number by a different number. But it is that first number where there are any complications, and that has to be done now. There are a few more calculations, but they are not complex. So systems set up on a computer. . .

• 1700

The Chairman: You do not think that there is any difficulty here?

Mr. Lynn: Computationally, no.

The Chairman: An ordinary fellow with an old lead pencil can calculate it right out.

Mr. Lynn: If he can multiply by six and one-half, he can multiply by two. The trick lies in subtracting the appropriate percentage up to the YMPE.

Mr. Pickard: For each year they contribute, they receive two units. And 35 years gives them their 70 units. Would that be correct? At age 63, supposing they had 30 years of contributions, how much would they lose if they did not have their 35 units? How much a year? You are using 2% as a way of building it up. What about going the other way, if they do not have the full units in? What if someone had to take it ahead of time, and he only had his 30, which would give him 60 units instead of 70?

Mr. Horner: The maximum pension for that person would be 60% of his best three years' earnings. That is the system now. Of course, it is paralleled by somebody who is not in a pension plan. If he stops working one year, then he has no more earnings to contribute to an RRSP. So it is parallel.

The Chairman: The Auditor General said in his report that there is a one-time compliance cost to employers of \$330 billion. You apparently estimate the one-time cost at \$60 to \$70 million. Who is right? Why did the Auditor General come up with this enormous cost of compliance in determining this PA?

Mr. Horner: The main difference between our estimate and the Auditor General's is that he included assumptions about what firms would do in changing the design of the plan, which we did not think were really compliance

[Traduction]

doit effectuer actuellement lorsqu'il calcule les cotisations de l'employé ou les retenues hebdomadaires.

Il faut donc effectuer quelques multiplications de plus. Que ce soit à cause de l'intégration au RPC ou pour une autre raison, actuellement, il faut multiplier par 6,5 p. 100 environ. Mais pour calculer le facteur d'équivalence, il faut multiplier par 2, s'il s'agit d'un régime à prestations déterminées à 2 p. 100, ou par 1,5 pour un régime à 1,5 p. 100, puis par le facteur 9. C'est lors du premier calcul que peuvent survenir des complications, mais il faut le faire de toute façon actuellement. Ensuite, il y a quelques calculs supplémentaires, mais ils sont simples. Ainsi, les systèmes informatisés. . .

Le président: Cela ne pose aucun problème, selon vous?

M. Lynn: Pas pour faire les calculs, non.

Le président: N'importe qui pourrait faire ce calcul à la main?

M. Lynn: S'il peut multiplier par six et demi, il peut multiplier par deux. Le truc consiste à soustraire le pourcentage voulu jusqu'à concurrence du maximum des gains annuels ouvrant droit à pension.

M. Pickard: Chaque année de cotisation donne droit à deux unités. Au bout de 35 ans, on obtient donc 70 unités, n'est-ce pas? À 63 ans, à supposer que l'on ait cotisé pendant 30 ans, combien perdra-t-on si l'on n'arrive pas au nombre de 35? Combien par an? Vous calculez sur la base de 2 p. cent par an. Pourquoi ne pas faire le calcul dans l'autre sens, si les personnes n'ont pas accumulé la totalité des unités voulues? Que se passe-t-il si quelqu'un doit prendre sa retraite de façon anticipée, et qu'il n'a cotisé que pendant 30 ans, ce qui lui donnera 60 unités au lieu de 70?

M. Horner: La pension maximum pour cette personne équivaldra à 60 p. cent de la rémunération moyenne de ses trois meilleures années. C'est le système actuellement en vigueur. Bien entendu, c'est la même chose pour la personne qui ne participe pas à un régime de pension. Si elle cesse de travailler pendant un an, elle n'a plus de gains lui permettant de cotiser à un REER. C'est donc la même chose.

Le président: Dans son rapport, le Vérificateur général a déclaré que pour se conformer aux nouvelles dispositions, les employeurs devraient dépenser en une seule fois 330 milliards de dollars. Selon vos estimations, il s'agira de 60 à 70 millions de dollars. Qui a raison? Comment le Vérificateur général en est-il arrivé à un coût d'observation aussi énorme pour calculer ce facteur d'équivalence?

M. Horner: La différence entre nos prévisions et celles du Vérificateur s'explique par le fait qu'il se fonde sur des hypothèses quant aux mesures que prendront les entreprises pour modifier la conception du régime, ce que

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costs. We thought that you could call them tax planning costs.

The Chairman: Stop there for a moment. You said they were not compliance costs, but were tax planning costs. Still, they are all deductible costs, are they not?

Mr. Horner: The point of estimating compliance costs is to determine the burden the change to the system is putting on the employer. The employer may think that because of a change in the limits and because he has not made any changes in his plan for five years he will not consider design changes. Is that a cost of complying with the new system, or is that the employer doing something on his own volition? We have tried to separate the costs of putting in systems to calculate PA from costs arising from an employer's decision to change his benefit formula and institute a profit-sharing plan.

The Chairman: Well, he also has to advise his employees of what he is doing. The Auditor General said this would cost him \$100 million.

Mr. Horner: We also thought that their estimates—and we have seen the report—were in error with respect to the assumptions about how much consultant time would be used. The implication was that if those estimates were true, the actuarial profession would be working about 40 hours a day to put in those billable hours. It was implausible in terms of the overall billings on pension work of the industry.

• 1705

The Chairman: In any event, to calculate these PAs at the outset it will cost employers, according to the government's own figure, your figure, \$60 million to \$70 million, and that is just the bare cost of calculating it and presumably telling people.

Mr. Horner: That is correct.

Mr. Lynn: Page 11: how the proposed measures will ensure that all taxpayers have full access to the new uniform comprehensive limits. As you said, the RRSP limit, or the broad limit for a year, will be 18% of the previous year's earnings, up to the dollar maxims laid out, less the taxpayer's PA for the previous year.

This information will be provided to taxpayers by Revenue Canada, probably in the fall of each year, because Revenue Canada gets the information in the spring with the T-4s and the tax returns, does the calculations, gets a notice out to the taxpayers in the fall. Then they will have until the same period as now, 60 days until the end of February of the next year, in order to make any contributions they want to. So the taxpayers will get a notice—

The Chairman: A notice from Revenue Canada.

[Translation]

nous n'avons pas considéré comme des dépenses au titre de l'observation de la loi. Nous avons préféré parler de coûts de planification fiscale.

Le président: Permettez-moi de vous interrompre un instant. Vous avez dit qu'il ne s'agissait pas de coûts d'observation, mais de dépenses de planification fiscale. Ces dépenses sont néanmoins déductibles, n'est-ce pas?

M. Horner: Si l'on calcule les coûts d'observation, c'est pour déterminer le fardeau que va représenter pour l'employeur l'adoption du nouveau système. L'employeur pourrait décider, étant donné que les plafonds ont été modifiés et qu'il n'a rien changé dans son régime pendant cinq ans, de ne pas modifier la conception du régime. S'agit-il d'un coût lié à l'application du nouveau système, ou d'une initiative de l'employeur prise de son propre gré? Nous avons essayé de faire la distinction entre les dépenses liées à la mise en place de systèmes de calcul du facteur d'équivalence et les dépenses dûes à la décision d'un employeur de modifier sa formule de prestation et d'instaurer un régime de participation aux bénéfices.

Le président: Il doit aussi informer ses employés des mesures qu'il prend. Selon le Vérificateur général, cela lui coûtera 100 millions de dollars.

M. Horner: Nous avons jugé, quant à nous, que ces prévisions—et nous avons vu le rapport—étaient erronées quant aux hypothèses relatives aux heures de travail des consultants. Si ces prévisions étaient exactes, les actuaires seraient obligés de travailler 40 heures par jour pour effectuer les heures de travail facturables. Les prévisions relatives à la facturation globale du travail de révision des pensions des entreprises semblent peu plausibles.

Le président: En tous cas, selon les prévisions établies par le gouvernement, le calcul des facteurs d'équivalences coûtera au départ entre 60 et 70 millions de dollars aux employeurs, et cela ne porte que sur les calculs proprement dits et l'information des employés.

M. Horner: C'est exact.

M. Lynn: Page 11: comment les mesures proposées peuvent-elles garantir que tous les contribuables auront pleinement accès à ce plafond global uniforme. Comme vous le dites, le plafond de REER, ou le plafond général pour un an, correspond à 18 p. 100 des gains de l'année antérieure, à concurrence du maximum prévu, moins le FE du contribuable de l'année précédente.

Ce renseignement sera fourni au contribuable par Revenu Canada, sans doute à l'automne de chaque année, car le ministère reçoit les renseignements au printemps avec les T4 et les déclarations d'impôt, effectue les calculs, et envoie un avis aux contribuables à l'automne. Il restera alors à ces derniers la même période qu'à l'heure actuelle, soit 60 jours jusqu'à la fin de février de l'année suivante, pour verser les cotisations qu'ils souhaitent. Les contribuables recevront donc un avis. . .

Le président: Un avis de Revenu Canada?

[Texte]

Mr. Lynn: Yes. So they will know in the fall how much room they have, and they will have up until the end of February to pick it up.

The Chairman: Do I then gather that the income tax returns being filed now are being used to determine what the PA will be for the taxation year 1990?

Mr. Lynn: Next spring.

Mr. Horner: The earnings of employees and the pension formula they are subject to will be used by the employer during this year, or really at the end of this year, to calculate the PA and report it on a box on the T-4 along with the earnings and the pension contribution.

The Chairman: Then is it on that basis that in 1991 he will be able to make contributions?

Mr. Horner: That is right. The information needed to determine the RRSP limit for 1991 is the 1990 earnings and the 1990 PA.

Mr. Lynn: He will get that information in the fall of 1991.

The Chairman: So maximum contribution is not based on your current earnings any more; we go from current earnings, which have 20%, but now it is a year ago's earnings and it is 18% of a year ago's earnings.

Mr. Horner: That is right.

The Chairman: So any inflation or any increases in wages also come off the determination of the contribution.

Mr. Lynn: But your PA is based on the previous year's earnings.

The Chairman: I appreciate that the PA is based on that. But when we are talking about the 18%, which is the governing maximum contribution, it is 18% of the previous year's earnings whereas currently it is 20% of the current taxable year's earnings. Is that correct?

Mr. Horner: That is right. Another way of looking at it would be to say that when you are earning money in a given year, 2000 say, you can arrange with your employer to have employer-sponsored arrangements that go right up to the maximum, giving you a PA of 18% to the extent that your employer-sponsored arrangements do not give the maximum amount of savings the balance you have available next year, in 2001 to—

The Chairman: Got you.

Mr. Lynn: This means the taxpayers will then be able to supplement their savings from their employer-sponsored plans up to the uniform limit. As we said earlier, people in less generous plans or who only work part of the year, are laid off or had only part of their earnings covered, where they cannot now pick that up, they will be able to with the new system.

[Traduction]

M. Lynn: Oui. De sorte qu'ils sauront à l'automne combien ils peuvent cotiser et ils auront jusqu'à la fin février pour le faire.

Le président: Dois-je en déduire que les déclarations d'impôt sur le revenu qui sont envoyées à l'heure actuelle servent à calculer le FE pour l'année fiscale 1990?

M. Lynn: Le printemps prochain.

M. Horner: L'employeur utilisera les gains des employés et la formule de calcul des pensions pendant l'année, ou en fait à la fin de l'année, pour calculer le FE et l'indiquer dans une case du T4, en même temps que les gains et la cotisation au régime de pension.

Le président: C'est en fonction de ce calcul que le contribuable pourra faire des cotisations en 1991, par conséquent?

M. Horner: C'est exact. Les renseignements nécessaires pour calculer le plafond de REER pour 1991 sont les gains et le FE de 1990.

M. Lynn: Il obtiendra ces renseignements à l'automne 1991.

Le président: La cotisation maximale ne dépend donc plus des gains actuels; au lieu de calculer d'après 20 p. 100 des gains actuels, on se fonde sur 18 p. 100 des gains de l'année précédente.

M. Horner: C'est exact.

Le président: Pour calculer la cotisation, on tient compte également de l'inflation ou d'une éventuelle augmentation de traitement.

M. Lynn: Toutefois, le FE se fonde sur les gains de l'année précédente.

Le président: Je comprends bien. Mais lorsqu'on parle de 18 p. 100, qui détermine la cotisation maximale, il s'agit bien de 18 p. 100 des gains de l'année précédente, tandis que le système actuel se fonde sur 20 p. 100 des gains de l'année fiscale en cours. Est-ce exact?

M. Horner: C'est exact. On pourrait aussi envisager la question sous un autre angle et dire que si l'on gagne de l'argent au cours d'une année donnée, en l'an 2000, on peut s'entendre avec son employeur pour cotiser en plus à un régime d'employeur jusqu'à concurrence du plafond prévu, ce qui donne un FE de 18 p. 100 dans la mesure où le régime d'employeur ne permet pas d'atteindre le maximum, le solde qui peut être reporté sur l'année suivante, en 2001. . .

Le président: D'accord.

M. Lynn: Autrement dit, les contribuables pourront compléter l'épargne qu'ils mettent de côté dans un régime d'employeur jusqu'à concurrence du plafond uniforme. Comme nous l'avons dit plus tôt, ceux qui participent à des régimes de pension moins généreux ou qui ne travaillent que pendant une partie de l'année, sont mis à pied ou participent à des régimes qui ne couvrent qu'une partie de leurs gains et qui, actuellement, ne leur

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Of course the rules will again deal fairly with the multi-year nature of retirement savings arrangements. Employees will be able to get past-service pension credits or benefit upgrades, but they must be within the 18% limit. They must have accumulated enough room for them or they go into a negative situation.

• 1710

For example, to apply the limit to past-service benefits, the amount of your unused RRSP room each year will be accumulated and carried forward, so if in two or three years down the road you bought back some past years or got an upgrade, the value of that could be calculated and applied against your accumulated room. None of that, of course, can happen now.

Mr. Attewell: Do you have any kind of profile, by income I guess, or perhaps by age, of who is using the RRSP? Is there any kind of grid that could be developed on that?

Mr. Lynn: We have a little set of facts and figures, Mr. Chairman, that we can distribute to the members, and some of these numbers are in there.

Mr. Attewell: The first carry-forward year would be what, 1991?

Mr. Horner: 1991 would be the first year in which if you do not fully use your room you could carry it forward. 1992 would be the first year you could make an extra contribution based on the room not used in 1991.

Mr. Lynn: An essential part, a new part, and a very significant part of the proposal relating to the multi-year dimension is that you will be able to catch up; i.e., you will be able to carry forward your unused RRSP room for seven years. That is most significant for people who have fluctuating incomes or who are young and may be buying a house for a few years, or other things.

Mr. Attewell: Was there a lot of mail requests on that? I do not remember hearing anybody asking for it.

Mr. Horner: The concept of the carry-forward was part of the proposals by the Carter commission, although their structure of limits was somewhat different. There is an inequity now in the sense that somebody who is lucky enough to be in a pension plan with a willing employer can make retroactive contributions, but somebody who is not in a person plan or who is in a pension plan where they cannot arrange things with their employer cannot make them. So there is already a situation where there is effective carry-forwards or catch-ups for some taxpayers and not for others.

[Translation]

permettent pas de compléter leurs cotisations, pourront le faire en vertu du nouveau système.

Bien entendu, les règles tiendront compte équitablement de la nature pluriannuelle des mécanismes d'épargne-retraite. Les employés pourront obtenir des crédits de pension pour services passés ou des améliorations de prestations, à condition que le plafond de 18 p. cent soit respecté. Ils devront avoir accumulé suffisamment de droits à déduction pour éviter de se trouver dans une situation négative.

Par exemple, pour appliquer le plafond aux prestations pour services passés, le montant des droits à déduction inutilisés au titre d'un REER sera accumulé et reporté, de sorte que si, deux ou trois ans plus tard, on rachète les années passées ou obtient une amélioration de prestations, la valeur de ces crédits pourra être calculée et imputée à ces déductions inutilisées. C'est impossible à l'heure actuelle, bien entendu.

M. Attewell: Avez-vous établi un profil, par revenu, je suppose, ou peut-être par âge, des participants au REER? A-t-on pu élaborer une sorte de grille?

M. Lynn: Nous avons une série de données et de chiffres, monsieur le président, que nous pouvons distribuer aux membres du Comité, où se trouvent certains de ces renseignements.

M. Attewell: Quelle sera la première année pour le report, 1991?

M. Horner: Oui, 1991 sera la première année où l'on pourra reporter les droits à déduction inutilisés. 1992 sera la première année où l'on pourra verser une cotisation supplémentaire grâce aux droits à déduction inutilisés en 1991.

M. Lynn: La possibilité de rattrapage constitue un élément crucial de la proposition relative à la nature pluriannuelle des mécanismes; autrement dit, il sera possible de reporter les déductions inutilisées au titre d'un REER pendant sept ans. Cette disposition est très importante pour les gens dont le revenu fluctue, ou qui sont jeunes et veulent s'acheter une maison, par exemple.

M. Attewell: Avez-vous reçu un grand nombre de demandes par la poste à ce sujet? Je ne me rappelle pas avoir entendu quiconque faire une telle demande.

M. Horner: Le principe du report était inclus dans les propositions de la commission Carter, même si le barème des plafonds établi par celle-ci était quelque peu différent. Il y a à l'heure actuelle une injustice dans la mesure où une personne qui a la chance de cotiser à un régime de pension d'un employeur plein de bonne volonté peut verser des cotisations à titre rétroactif, alors que celui qui ne cotise pas à un régime de pension ou dont le régime est trop rigide n'a pas cette possibilité. Il y a donc déjà des cas où les reports ou les rattrapages sont possibles pour certains contribuables mais pas pour d'autres.

[Texte]

Mr. Parker: For example, someone could be in a very active pension scheme and put it into RRSPs, but loses his job and then not work for two or three and then have employment. Then he wants to build that up, and he will be able to do it now. Is that correct?

Mr. Horner: If the person actually has no earnings for a year, they would not be able to contribute on the basis of that year. The whole scheme is to allow people to replace earnings that cease at retirement, and so earnings are the measure and the limit is 18% of earnings. So for a time when you have no earnings there is no contribution room built up. But if a person worked half the year and then was unemployed for the other half and could not make any contribution because they needed their full earnings to live on—

Mr. Parker: They could double up the next year.

Mr. Horner: —when they got stable again they would be able to pick it up.

Mr. Lynn: Another type of adjustment, Mr. Chairman, is job termination. If a taxpayer loses his benefits on job termination and gets back contributions, I guess sometimes without interest, there could be a pension adjustment reversal in this case, and in which case could create more room for them in the future years because—

The Chairman: This would be somebody who had lost their job before the pension fund was funded.

Mr. Lynn: Yes. Mid-career you lose your job—you would find that you get some money back and you could move that into another plan or an RRSP. Quite often the amounts of PAs that have been charged to your account over the period you were working will be greater than the amount you get back, so that difference will then be added to your RRSP account and you would have additional room then in the coming years.

• 1715

Now, with respect to the interplan transfers again, which we have been talking about, the rules will permit the funds and service credits to be transferred between plans. However, there will be limits placed on lump-sum transfers from defined benefit to money purchase plans to prevent people from getting excessive contributions. As it is now, some people can take the commuted value of their entitlements in a defined benefit plan, and if they had early retirement benefits in there and some liberal, generous assumptions about the economic assumptions, they could get quite a sum and put that into a money purchase plan and get a further substantial tax deferral. So there will be limits on that.

[Traduction]

M. Parker: Par exemple, quelqu'un pourrait participer à un régime de pension très actif et verser des cotisations à un REER, mais il pourrait perdre son emploi et ne pas travailler pendant deux ou trois ans, puis trouver un nouvel emploi. S'il veut rattraper ces années-là, il pourra le faire désormais, n'est-ce pas?

M. Horner: Si la personne n'a aucun revenu pendant un an, il ne pourra faire aucune cotisation pour cette année-là. Le programme vise à permettre aux gens de remplacer des gains qui cessent au moment de la retraite, de sorte que les gains représentent la mesure et le plafond correspond à 18 p. cent des gains. Pendant la période où une personne n'a pas de revenu, elle ne peut pas accumuler de droits à cotisation. Mais si une personne a travaillé pendant la moitié de l'année et a été au chômage pendant l'autre moitié et qu'elle n'a pas pu verser de cotisations parce qu'elle avait besoin de toute sa rémunération pour subsister. . .

M. Parker: Elle pourra cotiser le double l'année suivante.

M. Horner: Elle pourra verser des cotisations de rattrapage lorsque sa situation s'améliorera.

M. Lynn: La cessation d'emploi constitue un autre genre de redressement, monsieur le président. Si un contribuable perd ses prestations en raison de cessation d'emploi et qu'il récupère ses cotisations, parfois sans intérêts, je suppose, un facteur de redressement pourra s'appliquer, ce qui augmentera ses droits de cotisations pour les années suivantes puisque. . .

Le président: Il s'agirait alors d'une personne qui a perdu son emploi avant que le fond de pension ne soit capitalisé.

M. Lynn: Oui. Disons que vous perdez votre emploi au milieu de votre carrière. Vous pouvez récupérer une partie de vos cotisations et les verser à un autre régime ou à un REER. Souvent, le montant de FE qui aura été imputé à votre compte au cours de votre période d'activité sera supérieur au montant que vous récupérerez, et cette différence s'ajoutera donc à votre compte de REER de sorte que vous pourrez verser des cotisations plus élevées par la suite.

Pour revenir à la question des transferts entre les régimes dont nous avons déjà parlé, les règles permettront le transfert de fonds et de crédits de pension entre régimes. Toutefois, les plafonds seront imposés aux transferts forfaitaires d'un régime à prestations déterminées à un régime à cotisations déterminées, afin d'empêcher les gens d'avoir droit à des cotisations excessives. En vertu du système actuel, certaines personnes peuvent toucher la valeur substituée de leurs cotisations à un régime à prestations déterminées, et s'ils ont des prestations de retraite anticipée et grâce à des hypothèses assez généreuses quant à la conjoncture économique, ils pourraient rassembler une somme assez importante et la verser à un régime à cotisations

[Text]

Similarly, there will be limits placed on the transferability of period pension income. In fact, it is essentially being eliminated, except for the \$6,000 to a spousal RRSP.

The Chairman: How long is the spousal RRSP transfer allowed?

Mr. Lynn: Through to 1994.

The Chairman: And then it is limited. It is terminated then.

Mr. Lynn: Yes, it is the tide-over.

The Chairman: Why have you done that?

Mr. Horner: The idea of transferring pension income received from a plan is really anomalous, because the basis for a contribution should be only what is going to cease at retirement. Investment income and a lifetime pension are not going to cease at retirement, so they should not be the basis for further tax deferrals. So that was one of the bases for eliminating the roll-over of pension income.

However, we realized there were people already retired or in the process of retiring who were in a situation where they had a pension for life, but there were no survivor benefits attached to that pension because they had retired before pension reform. So they were in the situation where if they died their spouses would have nothing, so there was a need to replace earnings. While it would last for their lives, it would not last for the life of the longest-living spouse. So this transitional allowance was introduced to address that specific problem, although—

The Chairman: But you are eliminating it in 1994.

Mr. Horner: By then the Pension Benefits Standards Act requires that there be survivor benefits on pension income.

The Chairman: On all pensions.

Mr. Horner: Unless both spouses waive that in writing. The assumption is that if there is not a survivor benefit it is because of the willing choice of both spouses.

Mr. Parker: Could I ask a question on that? As I understand it, this is the last year in which you are allowed to reinvest your actual pension funds into a roll-over. Why was that decided? What prompted that?

Mr. Horner: As I was explaining, if the idea is to replace earnings that cease at retirement, we should look at what kinds of earnings actually cease at retirement. Pension income is a life payment, and so nothing ceases that needs to be replaced. So pension income, like

[Translation]

déterminées, ce qui leur donnerait droit à un nouveau report d'impôt important. C'est pourquoi des plafonds seront imposés.

De même, des plafonds seront imposés à la possibilité de transférer un revenu de pension périodique. En fait, cette disposition est supprimée à toutes fins utiles, sauf pour ce qui est des 6,000\$ versés à un REER de conjoint.

Le président: Pendant combien de temps le transfert au REER de conjoint est-il autorisé?

M. Lynn: Jusqu'en 1994.

Le président: Après quoi le plafond s'imposera. Cette disposition sera alors supprimée.

M. Lynn: Oui, c'est une mesure d'aide provisoire.

Le président: Pourquoi avez-vous fait cela?

M. Horner: L'idée de transférer les revenus de pension tirés d'un régime est anormale, en réalité, car les cotisations ne devraient se fonder que sur les gains qui prendront fin au moment de la retraite. Les revenus de placement et une pension à vie ne prennent pas fin au moment de la retraite, de sorte qu'ils ne doivent pas permettre d'obtenir d'autres reports d'impôt. C'est l'une des raisons pour lesquelles nous avons supprimé le transfert d'un revenu de pension en franchise d'impôt.

Toutefois, nous nous sommes rendu compte que certaines personnes déjà à la retraite ou sur le point de prendre leur retraite, avaient une pension à vie, mais aucune disposition n'était prévue en ce qui a trait aux prestations au conjoint survivant car elles avaient pris leur retraite avant la réforme des pensions. En conséquence, si ces personnes décédaient, leur conjoint n'avait plus aucun revenu, et il fallait donc faire quelque chose, la pension étant payable jusqu'à la fin de leur vie, mais pas pendant toute la vie du conjoint survivant. Cette disposition provisoire a donc été adoptée pour résoudre ce problème précis, même si. . .

Le président: Mais elle sera supprimée en 1994.

M. Horner: De toute façon, les prestations au conjoint survivant seront garanties en vertu de la Loi sur les normes de prestations de pension.

Le président: Pour toutes les pensions.

M. Horner: À moins que les deux conjoints ne demandent une dispense par écrit. On suppose que s'il n'y a pas de prestations de survivant, c'est parce que les deux conjoints ne l'ont pas voulu.

M. Parker: Puis-je poser une question à ce sujet? Si j'ai bien compris, cette année est la dernière où on est autorisé à investir ses revenus de pension en franchise d'impôt. Qu'est-ce qui a motivé une telle décision?

M. Horner: Comme je l'ai expliqué, si l'objectif poursuivi est de remplacer les gains qui prennent fin au moment de la retraite, il faut examiner quelles sortes de gains prennent réellement fin à la retraite. Les revenus de pension sont versés à vie, et il est donc inutile de les

[Texte]

dividend income, really should not be the basis for further—

Mr. Parker: The problem I see with that is that, as you mentioned with regards to the survivor, in many cases some of these people have taken it ahead of time. Say they took their pensions at age 55, as they have now, and went to work in other areas. They have the opportunity at the present time, until the end of this year, to roll over their pension earnings into their pension scheme or into an RRSP, thinking that in a couple of years they will be able to retire fully. This is the part I see, that the Pension Benefits Standards Act has made provisions for the spouse, but now this will be stopped because of this change.

Mr. Horner: We are not stopping the provision for spouses.

• 1720

The Chairman: Well, you are after 1994.

Mr. Horner: We are stopping the roll-overs, but we are not stopping pension plans or RRSP annuities from having survivor benefits that are payable after the death of the plan member.

Mr. Parker: The point I am getting at, if I might just follow up on this—because it is an important one right now with the changes that have taken place—is that for someone who has taken early retirement, who has gone to another employment or a job with less strain possibly, there is now an opportunity for him to say, well, now I can build this up to help out my spouse and myself by just rolling over that pension part and my earnings will be taxed accordingly but my roll-over will go into the RRSP for the next three years.

Mr. Lynn: If he is earning money now and does not need the pension he is getting from his first job—as he said, he does not need it, it is not serving the purpose the pension and the pension system is designed for—he does not need to spend it. He can take it and invest it for 10 or 15 years or whatever it is and build it up and build up a fund until he finally retires.

The Chairman: He has to pay tax on it, though.

Mr. Lynn: Yes, but the point is why should we give tax assistance to him when he does not really need it?

The Chairman: Okay. What are you going to do about the people retired from the army, the police force, the fire department, who are compulsorily retired because of health reasons or because of age restrictions on their jobs, when they are retired and obviously the pension they get

[Traduction]

remplacer puisqu'ils ne prennent pas fin. Les revenus de pension, au même titre que les revenus de placements, ne devraient pas être inclus dans le calcul des nouveaux. . .

M. Parker: Cela pose un problème, d'après moi, car comme vous l'avez dit au sujet du conjoint survivant, il a bien des gens qui touchent leur pension de façon anticipée. Disons qu'ils la touchent dès 55 ans, et qu'ils choisissent d'aller travailler dans d'autres secteurs. Ils ont la possibilité à l'heure actuelle, jusqu'à la fin de l'année, de transférer leur revenu de pension à leur nouveau régime de pension ou à un REER, dans l'espoir de prendre une retraite totale dans quelques années. Je comprends que la Loi sur les normes de prestations de pension prévoit le cas du conjoint survivant, mais cette possibilité n'existera plus en raison de cette modification.

M. Horner: Nous n'avons pas supprimé la disposition relative au conjoint.

Le président: Mais elle le sera après 1994.

M. Horner: Nous mettons fin au roulement, mais nous n'empêchons pas les régimes de pension ou les rentes viagères dans le cadre d'un REER de prévoir des prestations au survivant après la mort de la personne qui cotise au régime.

M. Parker: Cette question est importante à l'heure actuelle, compte tenu des changements qui ont eu lieu et je voudrais donc poursuivre la discussion là-dessus. Voici ce à quoi je veux en venir. Supposons quelqu'un qui a pris une retraite anticipée et qui s'est trouvé un autre emploi, peut-être un emploi où il y a moins de pression. Cette personne peut maintenant décider d'utiliser le régime de retraite auquel elle cotisait dans son premier emploi pour aider son conjoint en transférant le montant déjà cotisé à un REER pour les trois prochaines années, sachant qu'elle sera imposé en conséquence.

M. Lynn: Si elle gagne de l'argent actuellement, elle n'a pas besoin de la retraite qu'il touche de son premier emploi. Si elle n'en a pas besoin maintenant, cette pension ne sert pas les fins pour lesquelles elle était prévue; elle n'a pas besoin de dépenser cet argent en ce moment. Elle peut donc l'investir pour 10 ou 15 ans ou une période quelconque pour l'accumuler dans un fonds jusqu'à ce qu'elle prenne sa retraite.

Le président: Elle doit toutefois payer de l'impôt sur ce montant.

M. Lynn: Oui, mais pourquoi devrions-nous fournir une aide fiscale à cette personne si elle n'en a pas vraiment besoin?

Le président: D'accord. Qu'allez-vous faire au sujet des gens des Forces armées, des services de police, des services d'incendie, qui ont été obligés de prendre leur retraite pour raison de santé ou bien parce que leur emploi comportait une restriction quant à l'âge? Quant ces gens-

[Text]

is not really designed to be a full life pension? It is a pension they have to take because they get it.

Mr. Lynn: And if they need it to live on?

The Chairman: Up to now they have been entitled to roll that over into a permanent plan for themselves. Now what you have done—

Mr. Lynn: But they must have other income to live on then.

The Chairman: That is right.

Mr. Horner: They have the most generous arrangements, because for most people under the current rules, and the under the rules we have proposed to continue, if you retire before age 60 the maximum pension you can have must be reduced to recognize that it is going to cost a lot more because it is going to go for a longer time. But with the police and the armed forces there are special provisions that allow a full pension without actuarial reduction to be paid from an earlier age.

So it is not true that the armed forces person or the—

The Chairman: Okay, so they are getting a full—

Mr. Horner: They are getting a good pension.

The Chairman: —pension maybe at the age of 50 or something like this.

Mr. Horner: It is 55 for a policeman and potentially 40 for an armed services person. And for them to go on to another job where they earn say earnings comparable to what they had before and earn pension benefits there—

The Chairman: So they are getting full pension. If they want to make another pension that is fine, but in the meantime they pay tax on this one.

Mr. Horner: Exactly.

The Chairman: Got you.

Mr. Lynn: Right. They can still invest and if they have a job then they do not need that for their retirement. So they can invest it, but there is no reason why there should be an additional—

The Chairman: Why they should have another ride on the government.

Mr. Horner: One further point that is probably important went into our thinking about the pension roll-overs, which is that it is precisely the wealthiest people who need their pension income least and who can afford to take maximum advantage of the roll-over, plus the fact that if you start with a \$60,000 pension at age 60 and roll it all over and add it to the \$60,000 you are continuing to get from age 71, say, when you have to mature your

[Translation]

là prennent leur retraite, la pension qu'il touche n'est évidemment pas conçue pour subvenir totalement à leur besoin. Ils sont obligés de toucher cette pension.

M. Lynn: Ils en ont besoin pour vivre?

Le président: Jusqu'à maintenant, ils avaient le droit de transférer ce montant à un régime permanent pour eux-mêmes. À partir de maintenant, à cause de ce que vous avez fait. . .

M. Lynn: Mais dans ce cas, ils ont d'autres revenus pour compléter leur pension.

Le président: C'est exact.

M. Horner: Ils bénéficient d'arrangements très généreux, car pour la plupart, en vertu des règles actuelles et des règles que nous maintenons ceux qui prennent leur retraite avant l'âge de 60 ans touchent une pension moindre parce qu'elle sera versée pendant plus longtemps et coûtera donc plus cher. Mais les membres des services de police et des Forces armées bénéficient de dispositions spéciales qui autorisent les retraités à toucher leur pleine pension sans qu'il y ait réduction actuarielle pour tenir compte du fait qu'ils prennent leur retraite plus jeune.

Il n'est donc pas vrai que les membres des Forces armées ou les. . .

Le président: D'accord. Ils touchent donc une pleine pension.

M. Horner: Ils touchent une très bonne pension.

Le président: Peut-être dès l'âge de 50 ans, à peu près.

M. Horner: L'âge est fixé à 55 ans pour un agent de police et il peut être de seulement 40 ans dans le cas d'un militaire. Ces gens-là peuvent ensuite se trouver un autre emploi et toucher un revenu comparable à celui qu'ils avaient auparavant, tout en ayant des prestations de retraite. . .

Le président: Ils touchent donc pleine pension. S'ils veulent cotiser à un autre régime de retraite, ils peuvent le faire, mais ils paient des impôts sur leur première pension.

M. Horner: Exactement.

Le président: J'ai compris.

M. Lynn: Rien ne les empêche d'investir et s'ils ont un emploi, ils n'ont pas besoin de leur revenu de pension. Ils peuvent donc l'investir, mais il n'y a aucune raison justifiant un supplément. . .

Le président: Aucune raison de bénéficier encore une fois des largesses du gouvernement.

M. Horner: Il y a une autre considération qui est probablement importante et dont nous avons tenu compte dans notre réflexion sur le transfert des pensions. C'est que ce sont précisément les gens les plus riches qui ont le moins besoin de leur revenu de retraite et qui peuvent profiter au maximum des avantages du roulement. De plus, la personne qui touche au départ une pension de 60,000\$ à l'âge de 60 ans et qui transfère cette somme

[Texte]

RRSP, then you have built yourself a \$120,000 pension, and that is pretty extreme.

The Chairman: You have built it by the double shelter.

Mr. Horner: Yes, that is right.

Mr. Dorin (Edmonton Northwest): I do not know if this is the place for this question, but it comes in the question of these limits. You point out correctly the dichotomy of the higher income person having the opportunity and so there is no real reason to justify it through the tax system.

Earlier Mr. Attewell asked about numbers and who contributes and all that. At the 18%, or even the previous 20% limit, at the lower incomes, \$25,000, did anybody ever get to that limit anyway? Who does the 20% and now to be the 18% limit affect? I know it is there for everybody, but at \$15,000 a year those people probably did not have cash to invest anyway. Do you get the point of my question?

Mr. Horner: It is true that the people who are in the poverty line area first of all do not have the money; and secondly, the GIS and OAS and CPP, as we pointed out on page 5, are doing a pretty good job of replacing their earnings. So it really would not be rational for them to take much use of it.

• 1725

It is important, however, that whenever you look at one of these tables of numbers, you are looking at a snapshot. There are lots of people at \$15,000 who are there because they are looking after children, for example, and in three years they will be back working full time and be earning \$35,000. It is easy to look too black and white at some statistics. Somebody who does not take advantage of the limits this year may take advantage of them in a couple of years.

The Chairman: You could have somebody whose spouse is earning a great deal of money yet earns only \$15,000 a year and would like to put the whole \$15,000.

Mr. Lynn: My understanding is that a lot of people, particularly lower-income people, do not go up to the limit.

Mr. Dorin: That is the point of my question. For whom is the limit relevant? If we had some way of evaluating that, it would be useful in a political sense.

The Chairman: You have reduced the limit and for lower-income people the reduction in the limit takes

[Traduction]

pour l'ajouter au revenu de 60,000\$ qu'il continue de gagner jusqu'à l'âge de 71 ans, par exemple, âge auquel le REER vient à échéance, se trouvera à bénéficier d'une pension de 120,000\$, ce qui est un exemple assez extrême.

Le président: En pareil cas, cette pension aura été constituée grâce à un double avantage fiscal.

M. Horner: Oui, c'est exact.

M. Dorin (Edmonton Nord-Ouest): Je ne sais pas si c'est le bon moment de poser cette question, mais elle concerne justement la question des plafonds. Vous faites remarquer à juste titre que les gens qui ont les revenus les plus élevés bénéficient des plus grands avantages, ce qui est paradoxal, puisque aucune raison valable ne justifie un pareil traitement fiscal.

M. Attewell a posé une question tout à l'heure au sujet du nombre et de l'identité des cotisants. Si l'on prend le plafond de 18 p. 100, ou même le plafond antérieur de 20 p. 100, au niveau inférieur de revenus, disons 25,000\$, est-ce que quelqu'un atteignait jamais cette limite de toute façon? Qui sera touché par cette limite de 20 p. 100, qui passe maintenant à 18 p. 100? Je sais que cela s'applique à tout le monde, mais à 15,000\$ par année, les gens n'ont probablement pas d'argent à investir de toute façon. Comprenez-vous ma question?

M. Horner: Il est vrai que les gens qui vivent tout près du seuil de la pauvreté n'ont pas d'argent à investir de toute façon. Deuxièmement, le supplément de revenu garanti, la pension de vieillesse et le régime de pension du Canada réussissent assez bien à remplacer leurs revenus comme nous le signalons d'ailleurs à la page 5. Il ne serait donc pas très logique pour eux de profiter pleinement de cette possibilité.

Il importe toutefois de retenir que ces chiffres présentent une sorte d'instantané de la population et peuvent être trompeurs. Il y a beaucoup de gens qui gagnent 15,000\$ parce qu'ils s'occupent de leurs enfants, par exemple, et qui, dans trois ans, seront de nouveau employés à plein temps et gagneront 35,000\$. Les statistiques peuvent être trompeuses. Quelqu'un qui ne profite pas des limites cette année pourrait en profiter dans quelques années.

Le président: On peut imaginer quelqu'un dont le conjoint gagne beaucoup d'argent, mais qui ne gagne lui-même que 15,000\$ par année et qui voudrait investir la totalité de ces 15,000\$.

M. Lynn: Que je sache, beaucoup de gens, en particulier dans la tranche inférieure des revenus, n'atteignent pas la limite.

M. Dorin: C'est justement la raison de ma question. Qui est touché par cette limite? Si nous avions un moyen de le savoir approximativement, ce serait utile sur le plan politique.

Le président: Vous avez réduit la limite; or, pour les gens à faible revenu, cet abaissement de la limite restreint

[Text]

away some of their current right to make sheltered savings.

Mr. Lynn: You say it is a neat question as to whether they come up to the limits.

The Chairman: Yes, the neat question is whether this matters anyway. While it may matter mathematically, there may be nobody to speak of to take advantage of it anyway.

Mr. Horner: I guess the statistics do show that only at the highest income levels do people even make a contribution year after year. Most people in middle income levels and even those in reasonably high income levels and certainly those at modest income levels miss maybe three years out of six or even more. So it becomes evident that 18% with a carry-forward is more generous, particularly at the lower end, than 20% with no carry-forward. There is more opportunity to save after the system has gone for a year or two under the new limits, even with that 2% change, just because of the carry-forward.

Mr. Parker: Mr. Chairman, I think it gets back to the question regarding the average income of people using the RRSP plans. Whether it is 18%, 20%, or 25%, if the people in the lower brackets do not have the money they cannot utilize it regardless. I think it is pretty important to us as a committee to know what range we are looking at here of those who do actually use the RRSP plan. Even at the 18% at which you are allowing them to utilize it, if they do not have the money then their opportunities are not there.

Mr. Lynn: As we said, at the really low income you really look to the public plans, the OAS, GIS, and the CPP. I think it is true that as you go up the income scale the percentage of people contributing to RRSPs goes up. But at any level it is a neat question as to whether people contribute up to the maximum permissible to them.

The Chairman: I would like to close the meeting off now. A number of people have caucus meetings tonight. I would like to recommence the meeting at 8 p.m. to give people a chance to keep in touch with caucus and then be back here. Will that be satisfactory instead of 7.30 p.m.? We will reconvene in this room at 8 p.m. and you can leave your material here.

Mr. Attewell: Regarding revenue cost before offsets, you say in your notes on page 13 that this includes the cost of the increase in the RRSPs. I would be interested to know what that amount is in that line. I can hear later.

Mr. Lynn: That is referring to the change made in 1986.

[Translation]

le droit qu'ils ont actuellement d'épargner tout en payant moins d'impôt.

M. Lynn: Vous posez la question de savoir si les gens atteignent la limite; cela vous semble une bonne question.

Le président: Oui, c'est une bonne question, car on peut se demander à quoi cela rime de toute façon. Mathématiquement, cela a son importance, mais tout compte fait peut-être que personne n'en profite.

M. Horner: Je suppose que les statistiques montrent que c'est seulement ceux qui touchent les revenus les plus élevés qui cotisent chaque année. La plupart des gens qui ont un revenu moyen ou même assez élevé et a fortiori ceux qui ont des revenus modestes font un versement une année sur deux ou plus rarement. Il est donc évident qu'une limite de 18% assortie d'un report prospectif est plus généreuse, surtout pour les gens à faible revenu, qu'une limite de 20% sans possibilité de report prospectif. Même en tenant compte de cette baisse de 2%, le nouveau régime, quand il sera en place depuis un an ou deux, offrira davantage de possibilités d'épargner, ne serait-ce qu'à cause de ce report prospectif.

M. Parker: Monsieur le président, je pense que nous en revenons à la question concernant les revenus moyens des gens qui contribuent à un RÉÉR. Que la limite soit fixée à 18%, 20% ou 25%, si les gens qui ont des revenus inférieurs n'ont pas suffisamment d'argent pour en profiter, cela ne fait aucune différence pour eux. Je pense qu'il est assez important que nous, en tant que membres du Comité, sachions qu'elle est vraiment le niveau de revenu de ceux qui cotisent effectivement à un Régime enregistré d'épargne-retraite. Même en établissant la limite à 18%, s'ils n'ont pas d'argent, ils ne peuvent pas en profiter.

M. Lynn: Comme nous l'avons déjà précisé, les gens qui ont un revenu vraiment faible se tournent plutôt vers les régimes publics, la pension de vieillesse, le supplément de revenu garanti et le régime de pension du Canada. Je pense qu'il est vrai de dire qu'à mesure que l'on monte dans l'échelle des revenus, le pourcentage de gens qui cotisent à un RÉÉR augmente. Mais quel que soit le revenu, on peut en effet se demander si les gens cotisent effectivement à hauteur du maximum auquel ils ont droit.

Le président: Je voudrais maintenant mettre fin à la réunion. Certains députés ont des réunions de leur caucus ce soir. Je voudrais reprendre la séance à 20 heures afin de permettre aux députés de participer à leur caucus avant de revenir ici. Est-ce que ce serait satisfaisant, au lieu de 19 h 30? Nous reprendrons donc la séance dans cette même pièce à 20 heures et vous pouvez laisser votre documentation sur la table.

M. Attewell: En ce qui concerne le manque à gagner avant compensation, vous dites dans vos notes, à la page 14, que ce montant comprend le coût des cotisations excédentaires de RÉÉR. J'aimerais savoir quel est ce dernier montant. On pourra me répondre plus tard.

M. Lynn: Cela renvoie au changement effectué en 1986.

[Texte]

The Chairman: We will explain at 8 p.m. The meeting is adjourned.

[Traduction]

Le président: Nous expliquerons tout cela à 20 heures. La séance est levée.

EVENING SITTING

• 2000

The Chairman: Let us get started. We are continuing with our meeting under Standing Order 108.(2) dealing with Bill C-52 in a preliminary study of the bill before it passes from second reading to us as a reference from the House. Our witnesses are here the same as this afternoon and we are on page 12, as I recall, of an explanation paper.

Mr. Lynn: That is right. We are pretty nearly finished page 12. We are talking about the outline of the proposed measures. We have gone through most of them and we are in fact down to the sixth item, which is that the new rules will eliminate a number of existing situations where excess tax assistance has been provided, and they provide a stronger basis for controlling abuse of the limits in the future.

At the end of the discussion this afternoon we indeed touched upon a number of these devices. I mentioned then that we have an annex attached, which lists about 14 specific ways in which the rules can be violated.

The Chairman: Can we go over your annex? I will bet you that I have a couple that are not in your annex.

Mr. Lynn: That may well be. We could do so now, Mr. Chairman. Or there are another two elements we have regarding the measures. On page 13, we have a table showing the impact on government revenues.

The Chairman: Let us carry on with the impact on government revenues.

Mr. Lynn: Okay, and then we can go through the annex item by item.

We put together a little table here showing the impact on government revenues. As has been indicated in the earlier material, it is tough making these estimates obviously but by and large we think that it will essentially be revenue neutral.

On the cost side, increasing the limits for the RRSPs and the money purchase plans will lead to some additional costs. We have made estimates of revenue costs before offsets, which include the cost of increase in the RRSP limits from \$5,500 to \$7,500 in 1986 and the phase-in to the \$1,500 for the RRSPs or the non-defined benefit plans.

SÉANCE DU SOIR

Le président: Nous pouvons commencer. En conformité de l'article 108(2) du règlement, nous poursuivons l'étude préliminaire de la teneur du projet de loi C-52, avant qu'il ne soit adopté en deuxième lecture et qu'il nous soit renvoyé par la Chambre. Nos témoins sont les mêmes que cet après-midi et nous en sommes à la page 12, si je me rappelle bien, d'un document explicatif.

M. Lynn: C'est exact. Nous en avons à peu près fini avec la page 12. Nous passons en revue les mesures proposées. Nous avons déjà discuté de la plupart d'entre elles et nous en sommes en fait à l'article 6, à savoir que les nouvelles règles vont éliminer un certain nombre de cas qui existent actuellement et auxquels on accorde une aide fiscale exagérée; ces nouvelles règles permettront également de mieux contrôler les abus à l'égard des limites à l'avenir.

À la fin de la discussion de cet après-midi, nous avons effectivement parlé d'un certain nombre de ces cas. J'ai précisé que nous avons un document qui figure en annexe et dans lequel on énumère 14 méthodes permettant d'enfreindre les règles.

Le président: Pourrions-nous passer en revue votre annexe? Je parie que je pourrai en citer quelques-unes qui ne figurent pas dans votre annexe.

M. Lynn: C'est fort possible. On pourrait le faire tout de suite, monsieur le président. Il y a deux autres éléments que nous voulons signaler en ce qui concerne les mesures proposées. À la page 14 de la version française, il y a un tableau montrant l'incidence de ces mesures sur les recettes gouvernementales.

Le président: Poursuivons donc l'étude de l'incidence sur les recettes du gouvernement.

M. Lynn: D'accord. Ensuite, on pourra passer en revue l'annexe point par point.

Nous avons donc établi un petit tableau qui montre l'incidence sur les recettes gouvernementales. Comme on l'a précisé dans les documents dont on a discuté antérieurement, il est évidemment difficile d'évaluer cette incidence, mais nous croyons qu'essentiellement, ces mesures seront neutres sur le plan des recettes.

La hausse des limites applicable au REER et aux régimes à cotisations déterminées entraînent une certaine augmentation des coûts. Nous avons évalué le manque à gagner avant compensation. Il s'agit du coût de la hausse de la limite applicable au REER, qui est passé de 5,500\$ à 7,500\$ en 1986 et de l'application graduelle des 1,500\$ pour les régimes enregistrés d'épargne-retraite et les régimes à prestations non déterminées.

[Text]

On the other side of the ledger, we have identified some of the major offsets there. These items are referred to in the annex.

The Chairman: What are AVCs?

Mr. Horner: They are additional voluntary contributions to a pension plan for past service. It is usually to a defined benefit pension plan but it is not buying defined benefits. It is like a little RRSP account.

The Chairman: Why is that shown as an offset?

Mr. Horner: It is because we have eliminated prior service as part of this legislation.

Mr. Lynn: The items under offsets are items that people will not longer be able to do. So they are going to save us money. There will be limits put on past-service buy-backs because they will have to be consistent with the overall limits. Similarly, excess RRSP or DPSP contributions gain—

The Chairman: What do you mean by reallocation of forfeitures?

Mr. Lynn: Maybe we should go through the annex, because it gives an example of each one of those under the heading of examples of excess tax deferrals that are eliminated by Bill C-52. Keith, do you want to go through the items here?

Mr. Horner: The first one is plans that do not obey the benefit limits on defined benefit plans that are set out by Revenue Canada. These include some plans with benefits over 2% per year of service and a larger number of plans that permit, for high-income employees, benefits that are 2% or less but are not capped at the dollar limit of \$1715 per year. Another example is plans that are 2% or less but credit years of service during which the person was not employed, sometimes occurring with early retirement situations and at other times as a routine. There are other ways in which plans are offside, but those are the key examples. Under the new limits—

• 2005

The Chairman: Can you tell me about MPs' plans?

Mr. Horner: The MPs' plan is an example. Its benefit rate is in excess of 2%. It is 5%.

The Chairman: Oh.

Mr. Lynn: It will be beyond the rules.

The Chairman: So by passing this bill we hurt ourselves?

[Translation]

De l'autre côté de l'équation, nous avons déterminé certaines des principales compensations. Ces points sont abordés dans l'annexe.

Le président: Que signifie le sigle CF?

M. Horner: Il s'agit des cotisations additionnelles facultatives à un régime de retraite pour services passés. Il s'agit habituellement d'un régime à prestations déterminées, mais ces cotisations additionnelles n'achètent pas des prestations déterminées. C'est un peu comme un compte REER.

Le président: Pourquoi cela figure-t-il sous la rubrique des compensations?

M. Horner: C'est parce que nous avons éliminé les services passés dans le cadre de cette mesure.

M. Lynn: Sous la rubrique des compensations, se trouve ce que les gens ne seront plus autorisés à faire. Tout cela nous fera donc économiser. On imposera une limite au rachat des services passés, qui seront assujettis aux limites globales. De même, les cotisations excédentaires de REER ou de RPDB. . .

Le président: Qu'entendez-vous par réaffectation de sommes perdues?

M. Lynn: Peut-être devrions-nous passer en revue l'annexe, car on y donne un exemple de chacun de ces cas, sous le titre: exemples de reports d'impôt excessifs qu'élimine le projet de loi C-52. Keith, voulez-vous aborder tous les points un à un?

M. Horner: Le premier point concerne les régimes qui ne respectent pas les limites de prestations fixées par Revenu Canada pour les régimes à prestations déterminées. Il s'agit notamment de certains régimes qui offrent des prestations supérieures au plafond de 2 p. 100 par année de service et aussi d'un nombre plus important de régimes qui autorisent, pour les employés à revenu élevé, des prestations qui sont de 2 p. 100 ou moins mais qui la limite de 1,715\$ par année. Il y a un autre exemple, celui des régimes dont les prestations sont de 2 p. 100 ou moins, mais qui sont autorisés à créditer des années de service pendant lesquelles la personne n'était pas employée; cela arrive notamment dans le cas d'une retraite anticipée ou dans d'autres circonstances. Il y a d'autres régimes qui dépassent les limites, mais ce sont là les principaux exemples. Aux termes des nouvelles limites. . .

Le président: Pouvez-vous me parler du régime de retraite des députés?

M. Horner: Le régime des députés est un exemple. Le taux des prestations dépassent 2 p. 100 puisqu'il est fixé à 5 p. 100.

Le président: Oh!

M. Lynn: Cela dépasse ce qui est autorisé par les règles.

Le président: Donc, en adoptant ce projet de loi, nous nous faisons du tort?

[Texte]

Mr. Horner: No.**Mr. Parker:** The railway plan is 7% employee and 7% employer.**Mr. Horner:** No, those are the contributions, but as far as I know the benefit rates of the railways plans are not in excess of the percentage rates, anyway. For high-income railway executives I think in some cases exceptions have been made from the dollar limit of \$1,715 per year of service, but I think the benefit rate is 2% or less.**Mr. Parker:** You are looking at about 70% of their wages, the same as—**Mr. Horner:** Yes. But the MPs' plan and most of the MLAs' plans and most of the judges' plans and some other plans out there have accrual rates, so that somebody who works 10 years, for example, does not get a 20% pension. In the MPs' plan, for 10 years you would get a 50% pension. So the accrual rate is faster than 2% per year of service.

Under the legislation, as Mr. Lynn said at the very beginning of the presentation, the aim is not to say that an employer cannot provide that benefit; the aim is to limit what benefits can be provided on a tax-subsidized or tax-assisted basis. Two ways are acknowledged or explicitly set out in the legislation for providing supplemental pensions beyond the tax assistance limits, and one is to provide them—

The Chairman: Go ahead.**Mr. Lynn:** Your plan will have to be split into two parts: one part that meets the limits for tax assistance, but then the other part on a pay as you go basis or through what we call a retirement compensation account, an RCA. But it means that you still get the same benefits; your contribution is deductible, but the employer will have to make it up.**The Chairman:** The employer will have to pay tax on it. Being the federal government, of course, it does not pay tax, so it is okay.**Mr. Lynn:** Pay as you go or put it into the RCA account, in which case there is a 50% refundable tax but that precludes the tax assistance on that element of it.**The Chairman:** Will you explain an RCA account?**Mr. Horner:** That account was introduced into the Income Tax Act in 1987, I think.**The Chairman:** Yes, 1987.**Mr. Horner:** It provides for prefunding of retirement-related benefits, but without tax assistance. It does that by

[Traduction]

M. Horner: Non.**M. Parker:** Le régime des chemins de fer prévoit 7 p. 100 pour les employés et 7 p. 100 pour l'employeur.**M. Horner:** Non, vous parlez des cotisations. Que je sache, le taux des prestations des régimes des cheminots ne dépasse pas la limite, du moins en pourcentage. Pour les cadres supérieures des compagnies de chemins de fer dont le revenu est élevé, je pense que l'on a fait des exemptions dans un certain cas à l'égard de la limite de 1,715\$ par année de service, mais je crois que le taux des prestations est de 2 p. 100 ou moins.**M. Parker:** Il s'agit donc d'environ 70 p. 100 du salaire, la même chose que dans le cas. . .**M. Horner:** Oui. Mais le régime des députés fédéraux, de même que la plupart des régimes des députés provinciaux et des juges, ainsi que certaines autres régimes, prévoient des taux gradués, de sorte que quelqu'un qui a 10 années de service, par exemple, ne touche pas une pension correspondant à 20 p. 100 de son salaire. Dans le cas du régime des députés fédéraux, on touche une pension correspondant à 50 p. 100 du salaire après 10 années de service. Le taux est donc supérieur à 2 p. 100 par année de service.

Comme M. Lynn l'a dit au tout début de son exposé, la mesure proposée n'a pas pour objectif d'empêcher un employeur d'offrir ce niveau de prestation; le but est de limiter le montant des prestations qui peuvent être offertes tout en bénéficiant d'un allègement fiscal. La mesure énonce explicitement deux manières d'offrir des pensions complémentaires dépassant la limite prévue pour l'aide fiscale. L'une de ces manières. . .

Le président: Poursuivez.**M. Lynn:** Le régime doit être partagé: une partie qui respecte les limites fixées pour l'aide fiscale, et une autre partie dont les cotisations sont facultatives ou qui prévoient ce que l'on appelle une CR, c'est-à-dire une convention de retraite. Cela signifie qu'on touche les mêmes prestations, la cotisation de l'employé est déductible, mais l'employeur devra faire la compensation.**Le président:** L'employeur devra payer de l'impôt sur sa cotisation. Comme il s'agit du gouvernement fédéral, il ne paie évidemment pas d'impôt, de sorte que le problème ne se pose pas.**M. Lynn:** On peut donc cotiser au fur et à mesure ou verser les cotisations à un compte de convention de retraite, auquel cas il y a un impôt remboursable de 50 p. 100, mais cela exclut l'allègement fiscal sur cette partie du régime.**Le président:** Pourriez-vous nous expliquer ce qu'est une convention de retraite?**M. Horner:** Cet élément a été introduit dans la Loi de l'impôt sur le revenu en 1987, sauf erreur.**Le président:** Oui, en 1987.**M. Horner:** Il s'agit du financement préalable des prestations relatives à la retraite, mais sans aucune aide

[Text]

having the benefits come in and with a deduction to the employer, or to the employee if there is an employee contribution. But then a 50% tax is levied on all the contributions at the plan level and also a 50% tax on investment earnings, and that is really—

The Chairman: How do you tax the investment earnings?

Mr. Horner: The plan custodian is responsible for remitting the tax at the end of each year on investment earnings.

The Chairman: Is that how you are going to attempt to organize the Members of Parliament plan and the Senate plan?

Mr. Horner: That is correct, and the final part of it is that the tax is a refundable tax. As benefits are paid out, the tax that has been paid is refunded to the custodian. What it really means is that less money is working earning interest during the accumulation period, and it does raise the cost to the employer of providing a given dollar of benefits.

The Chairman: What about the provincial tax on that refundable tax?

• 2010

Mr. Horner: The refundable tax is a special tax not under part 1.

Mr. Lynn: It is not shared.

The Chairman: I see. So it has nothing to do with provincial taxes at all; you take 50% and the provinces whistle.

Mr. Horner: The Minister of Finance has discussed with the provincial finance ministers the possibility of a special revenue-sharing arrangement for provinces that agreed to use this kind of arrangement to fund supplementary benefits or offside benefits in their own plans, and that would result in some revenue flows back and forth between the federal government and the provinces. Anyway, that is the proposal.

Mr. Lynn: It is not shared under the present tax collection agreement.

The Chairman: So right now you get a 50% tax; you do not share it. Then it is refundable if you pay the money out; so it is a floating operation.

Mr. Horner: The net result is that there is less money working for the plan sponsor to fund that benefit during the accumulation period because part of it has been paid in that special—

[Translation]

fiscale. Les prestations sont versées au compte et autorisent une déduction pour l'employeur ou pour l'employé s'il y a une cotisation de l'employé. Mais par la suite, un impôt de 50 p. 100 est perçu sur toutes les cotisations de l'ensemble du régime, de même qu'une taxe de 50 p. 100 sur les revenus d'investissement, ce qui revient à dire. . .

Le président: Comment perçoit-on la taxe sur les revenus d'investissement?

M. Horner: Le gardien du régime a la responsabilité de remettre la taxe sur les revenus d'investissement à la fin de chaque année.

Le président: Est-ce ainsi que vous allez tenter d'organiser les régimes de retraite des députés et des sénateurs?

M. Horner: C'est exact, mais en dernière analyse, l'impôt est remboursable. Au fur et à mesure que les prestations sont versées, l'impôt qui a été payé est remboursé au gardien du régime. Cela signifie en fait que pendant la période d'accumulation, il y a moins d'argent permettant de gagner des revenus d'intérêt; par ailleurs, il en coûte davantage à l'employeur pour fournir chaque dollar de prestation.

Le président: Est-ce qu'un impôt provincial est perçu sur ce remboursement d'impôt?

M. Horner: L'impôt remboursable est un impôt spécial qui n'est pas visé par la partie 1.

M. Lynn: Ce n'est pas partagé.

Le président: Je vois. Cela n'a donc rien à voir avec les impôts provinciaux; on prend 50 p. 100 et les provinces n'ont rien.

M. Horner: Le ministre des Finances a discuté avec les ministres provinciaux de la possibilité d'un arrangement spécial de partage des recettes pour les provinces qui accepteraient d'utiliser un tel système pour financer des avantages supplémentaires ou accessoires dans le cadre de leur propre régime, ce qui entraînerait des mouvements de recettes entre le gouvernement fédéral et les provinces. De toute façon, c'est ce qui a été proposé.

M. Lynn: Ces impôts ne sont pas partagés selon l'entente actuelle sur la perception d'impôts.

Le président: Donc, pour l'instant, le gouvernement fédéral reçoit un impôt de 50 p. 100 qu'il ne partage pas. Cet impôt est ensuite remboursable si l'argent est versé. Il y a donc circulation.

M. Horner: Cela veut dire à la fin du compte que celui qui finance le régime a moins d'argent à sa disposition pour la capitalisation pendant la période d'accumulation parce qu'une partie de l'argent a été versée au titre de cet impôt spécial. . .

[Texte]

The Chairman: Let us be blunt about it. The public service plan, some judges plans and the rest of it are not really funded. I mean, the accounting gets funded, but nothing is really funded.

Mr. Horner: Under this proposal, this part of the plan would be funded.

The Chairman: Where is the requirement funded? Is that in the act?

Mr. Horner: No. There is not a requirement fund.

The Chairman: So the payment of these pension moneys by institutions like school boards—large corporations that the employee or retired employee is prepared to believe will never go bankrupt—do not have to be funded, and the payments could be paid out as a salary or a retirement expense, or money expended to earn the income by these corporations or governments or whatever, and never require any funding.

Mr. Horner: That is correct, and we are not curbing that.

The Chairman: In other words, you are not curbing any—

Mr. Horner: Unfunded promises. We are setting limits on what benefits can be provided on a funded basis through a registered plan.

The Chairman: I see, but you are not in any way in this bill curbing unfunded promises.

Mr. Horner: That is correct.

I guess the last thing to point out with regard to point (a) is that a big part of the volume of the regulations and the legislation has to do with codifying the limits that are now in an information circular of Revenue Canada. Revenue Canada has found increasing pressure to provide, on a tax-assisted basis through registered plans, periods of deemed service and special benefits for one thing and another, and they have found it just harder and harder to defend the limits. Having made exceptions in the past, they really find themselves unable to defend what is perceived to be a discriminatory system, and it is really on the basis of their request that we are moving these rules into the Income Tax Act and regulations, with the aim of making a clearer set of rules that do not depend on a bureaucrat's decision on a given day, and a more enforceable set of rules.

The second situation is really one that has already been referred to in those two charts we looked at. By having an employer pay all the pension plan, the 2% limit could be exceeded because the current RRSP limits allow up to \$3,500 of additional RRSP contribution, even on a maximum plan. The new limits restructure the RRSP limit and reduce that generosity.

Point (c) is very similar. A maximum pension could be provided and the employer could make additional

[Traduction]

Le président: Soyons francs. Le régime de la Fonction publique et certains régimes de juges, et ainsi de suite, ne sont pas vraiment capitalisés. Seule la comptabilité l'est.

M. Horner: Selon cette proposition, cette partie des régimes serait capitalisée.

Le président: Où exige-t-on la capitalisation? Est-ce prévu dans la loi?

M. Horner: Non. Ce ne l'est pas.

Le président: Ainsi, le versement de prestations de pension par des organismes comme les conseils scolaires et les grandes entreprises qui, d'après les employés actuels ou retraités ne feront jamais faillite, n'a pas besoin d'être capitalisé et l'argent peut donc être versé comme salaire ou comme prestation de retraite ou bien dépensé par l'entreprise ou l'organisme pour réaliser des bénéfices sans jamais être capitalisé.

M. Horner: C'est exact et nous ne faisons rien pour empêcher cela.

Le président: Autrement dit, vous ne faites rien pour empêcher. . .

M. Horner: Les promesses non capitalisées. Nous fixons des limites aux prestations qui peuvent être versées selon un régime capitalisé.

Le président: Je vois, mais le projet de loi ne fait rien pour interdire les promesses non capitalisées.

M. Horner: C'est exact.

La dernière chose que je tiens à signaler au sujet du point (a), c'est qu'une bonne partie du règlement et de la loi vise à légiférer les limites qui sont maintenant fixées dans une simple circulaire de Revenu Canada. On demande de plus en plus à Revenu Canada d'offrir, grâce à l'aide fiscale dont jouissent les régimes enregistrés, des durées de service présumées et des prestations spéciales pour diverses choses et il est de plus en plus difficile de justifier les limites fixées. Comme Revenu Canada a fait des exceptions dans le passé, il est incapable de justifier ce que le public considère comme un système discriminatoire et c'est en réalité pour répondre à la demande de Revenu Canada que nous intégrons ces règles à la Loi et aux règlements de l'impôt sur le revenu. Les règles seront maintenant plus claires, ce qui veut dire qu'elles ne dépendront pas de la décision prise par un bureaucrate un certain jour et qu'elles seront plus faciles à appliquer.

Le deuxième point a déjà été couvert quand nous avons parlé des deux graphiques. Si l'employeur finançait tout le régime de pension, la limite de 2 p. 100 pourrait être dépassée puisque la loi permet actuellement des cotisations supplémentaires d'un maximum de 3,500\$ à un REER, même pour les régimes à cotisation maximale. Les nouvelles limites restructurent les modalités de cotisation au REER pour les rendre moins généreuses.

Le point (c) est très semblable. Une pension maximale pourrait être versée pendant que l'employeur peut verser

[Text]

deductible DPSP contributions. Again, the new limits will leave less room for that.

• 2015

The Chairman: A maximum pension supplement is provided.

Mr. Horner: That is right.

The Chairman: So you have a regular pension, a registered retirement pension, a defined benefit plan pension, then the employer goes ahead and does a DPS, right?

Mr. Horner: He makes additional contributions to a deferred profit-sharing plan. The limits there are up to \$3,500 a year.

The Chairman: Is that \$3,500 over and above what he has already committed under the other plan?

Mr. Horner: It is minus what he has put into the plan on respect of members. But if the plan is in surplus, for example, they have often been able to put money into the DPSP even though the person is accruing the maximum benefit of 2% a year under—

The Chairman: Those are plans where employees contribute to the plan, or something like that: the employer is responsible for the plan, the investment performance is good and they therefore are in surplus. That means they do not have to contribute any money and so they dump the money into DPS as an additional, do they?

Mr. Horner: That is one example. It also may be that with a whole bunch of young employees and perhaps turn-over the average cost per employee, even if the plan is not in surplus, is less than \$3,500 and there is some room left for DPSP contributions even with the maximum benefit pension plan.

The Chairman: Is the DPS \$3,500 per employee?

Mr. Horner: Yes.

The Chairman: But is it stackable? In other words, if it costs \$500 to supply a pension for one employee, can you use that \$3,000 additional room to supply a \$6,000 benefit to somebody else?

Mr. Horner: I think in principle the rule is supposed to work on an employee-by-employee basis, but in fact—

The Chairman: But in practice it does not, does it?

Mr. Horner: In fact, I believe employers have often averaged the pension cost over all their employees' income levels, and that allows them to make the

[Translation]

d'autres cotisations déductibles à un RPDB. Cette possibilité sera restreinte par les nouvelles limites.

Le président: On fixe un maximum pour les suppléments de pension.

M. Horner: C'est exact.

Le président: Il y a donc la pension ordinaire, le régime de retraite enregistré, le régime de pension à prestations déterminées, et ensuite l'employeur créerait un RPDB?

M. Horner: Il verse des cotisations supplémentaires à un régime de participation différée aux bénéfices, pour lequel la limite supérieure est de 3,500\$ dollars par année.

Le président: Est-ce 3,500\$ dollars de plus de ce qui a déjà été cotisé à l'autre régime?

M. Horner: Moins ce que l'employeur a déjà cotisé au régime pour les employés. Cependant, si le régime est excédentaire, par exemple, l'employeur peut souvent verser de l'argent au RPDB même si l'employé retire les prestations maximales de 2 p. 100 par année selon. . .

Le président: Il s'agit de régime où il y a cotisation des employés et pour lesquels il se passe quelque chose comme ceci: l'employeur administre le régime et les investissements ont produit un bon rendement, ce qui veut dire que le régime est excédentaire. Cela veut dire que l'employeur n'a pas besoin de verser de l'argent et, au lieu, il le verse à un RPDB comme cotisation supplémentaire?

M. Horner: C'est un exemple de ce qui peut se passer. Il se peut aussi qu'une entreprise ait un grand nombre de jeunes employés et peut-être une main-d'oeuvre instable, ce qui veut dire que le coût moyen par employé, même si le régime n'est pas excédentaire, est inférieur à 3,500\$ dollars et que l'employeur peut donc cotiser à un RPDB même s'il existe un régime de pension à prestations maximales.

Le président: La limite pour le RPDB est-elle de 3,500\$ dollars par employé?

M. Horner: Oui.

Le président: Est-ce cumulatif? Autrement dit, si l'on peut verser 500\$ dollars pour compléter la cotisation de pension d'un employé, peut-on se servir des autres 3,000\$ dollars pour verser un montant supplémentaire de 6,000\$ dollars pour la pension d'un autre employé?

M. Horner: Je pense qu'il faudrait en principe que cela se fasse pour chaque employé individuellement, mais en réalité. . .

Le président: Mais ce n'est pas le cas en réalité, n'est-ce pas?

M. Horner: De fait, je pense que les employeurs ont souvent calculé le coût moyen de la pension pour tous leurs employés à tous les échelons de revenu, ce qui leur

[Texte]

contribution in respect of, say, an older, higher-income employee to look smaller than it probably is.

The Chairman: So the DPS can look after the high muck-a-mucks in the operation, based on a contribution determined on the basis of \$3,500 per employee where you only have to really make \$500 per employee because the average age of the employees is pretty low.

Mr. Horner: Yes.

Mr. Lynn: But that will be caught by the overall limits.

Mr. Horner: The fourth example, example (d), comes out of the fact that the existing limits on contributions in respect of prior years are based on whether or not a plan member made a contribution in a prior year rather than on whether he or she earned benefits or not. So for plans that are non-contributory, people realized that there was an opportunity to make supplementary contributions over and above the normal contributions for past service, even though they are making the maximum limit.

The Chairman: Is this a section 145 thing I talked about earlier?

Mr. Horner: No, that is different. Some employers set up arrangements whereby the employees who had been working, say, for 10 years and had never made any contributions, had just been making up to \$3,500 RRSP contributions plus earning their pension benefits, would be allowed to contribute \$3,500 for the current year plus another \$3,500 for a past year on a deductible basis into a side account, which would be just like an RRSP held in the pension account, and when they retired they would get both the pension benefits they had earned through the defined benefit plan plus the value of this side account. The minister announced in the white paper of October 9, 1986, that the past service additional voluntary contributions would no longer be deductible after 1986, and that measure is contained. It has never been actually passed by the House.

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The Chairman: Has never been legislated.

Mr. Horner: The point (e) is the question you were pointing to on the revenue table about forfeitures of money purchase contributions.

In money purchase pension plans and in deferred profit-sharing plans, where an employer has made a contribution and then the employee terminates before the employer's contribution is vested in him, those contributions do not have to be returned to the employer but can be reallocated to other employees in the plan without counting against their limits at all.

[Traduction]

permet de faire paraître que la cotisation pour un employé plus âgé dont le revenu est plus élevé moins importante qu'elle ne l'est probablement.

Le président: Et si, le RPDB permet de fournir des prestations aux grands manitous de l'entreprise vu que la cotisation est calculée au taux de 3,500\$ dollars par employé alors qu'en réalité, l'employeur ne verse que 500\$ dollars par employé parce que l'âge moyen est relativement bas.

M. Horner: Oui.

M. Lynn: La situation sera cependant rectifiée par les limites générales.

M. Horner: Pour ce qui est du quatrième exemple, l'exemple (d), les limites actuelles relatives aux cotisations pour services passés dépendent du fait que le membre d'un régime ait cotisé ou non une année antérieure, peu importe, qu'il ait gagné des prestations ou non. On s'était rendu compte que, dans le cas des régimes non contributifs, on pouvait verser des cotisations supplémentaires en sus des cotisations normales pour services passés, même une fois que la limite maximale était atteinte.

Le président: Est-ce comme ce que je disais tantôt au sujet de l'article 145?

M. Horner: Non, c'est différent. Certains employeurs avaient mis sur pied des systèmes qui permettaient aux employés qui travaillaient depuis 10 ans, par exemple, et qui n'avaient jamais versé de cotisations au régime de pension, mais qui avaient simplement versé jusqu'à 3,500\$ dollars à un régime dans REER, en plus de gagner leurs avantages de pension, de cotiser 3,500\$ dollars pour l'année en cours plus encore 3,500\$ dollars pour une année antérieure à un compte accessoire qui serait l'équivalent d'un REER. Ces cotisations supplémentaires seraient déductibles d'impôt et, au moment de la retraite, les employés obtiendraient les prestations de pension qu'ils avaient gagnées dans le cadre du régime de pension à prestations déterminées, plus le montant de ce compte accessoire. Le ministre a annoncé dans le Livre blanc du 9 octobre 1986 que les cotisations facultatives pour services passés ne seraient plus déductibles après 1986, mais le changement n'a jamais été adopté par la Chambre.

Le président: N'a jamais fait l'objet d'une loi.

M. Horner: Le point (e) répondra à votre question au sujet du tableau des revenus et des renonciations aux cotisations de régimes à cotisations déterminées.

Dans les régimes de retraite à cotisations déterminées et dans les régimes de participation différée au bénéfice, auxquels l'employeur a versé une cotisation, si l'employé quitte son poste avant que les prestations lui soient acquises, les cotisations n'ont pas à être retournées à l'employeur mais peuvent être réaffectées aux autres participants du régime, sans que cela nuise à leurs limites.

[Text]

So there has been a sort of free contribution by the reallocation of these amounts that the terminating employees have forfeited. It is a kind of tontine system. If you stay in long enough, you not only get your own contributions but you gain your share of all the forfeitures of the people who never got vested benefits.

Our proposed rules will permit those forfeitures to stay in the plan but they will have to be counted against the other people's room, if they go to the other people's credit, or they can be used to offset future employer contributions.

The Chairman: Will some individual be entitled to the PA room that someone else has lost?

Mr. Lynn: If he has room for it.

The Chairman: Why would the PA not be specific to the individual? It is not transferable, surely.

Mr. Horner: No.

The Chairman: It is not cumulative. I cannot get a bunch of dummy young employees who do not have any PA, seize all their PA and add it to my pension room?

Mr. Horner: There is another one of these PA creatures that occurs only when somebody leaves a plan and gets a cash-out. Let us look at somebody in a money purchase plan. He left after two years and the employer had put in \$3,000 a year on his behalf. However, he left before he became vested, so he did not get that \$6,000. But he had a PA of \$2,000 to 3,000 a year. He would get a par on leaving, which would basically say you never got any \$6,000 credited to your account so you will get—

The Chairman: He has the right to put that in.

Mr. Horner: That is right. Your room will be restored because you lost it. Meanwhile, if that \$6,000 is allocated to other plan members who are still in the plan, their share of it will have to go on top of what PAs they would otherwise have. So it would be charged against them.

The Chairman: How could it be added? Why would it not be just pulled out?

Mr. Horner: Suppose there are six other members in the plan and they each get \$1,000, and they also had another in the year that this money was forfeited—

The Chairman: Give me some figures on that. Are we assuming we have a pension plan for five members? Each member puts in \$1,000 and the company puts in \$1,000, so the PA is \$2,000, right?

Mr. Horner: Yes.

The Chairman: A member quits in two years without any vesting. Then I suppose you have \$2,000 of the company's money in there.

[Translation]

Il y a donc en quelque sorte une cotisation gratuite à cause de la réaffectation des sommes auxquelles a renoncé l'employé démissionnaire. C'est un peu comme un système de tontine. Si vous y participez suffisamment longtemps, vous recevez en plus de vos cotisations celles auxquelles ont dû renoncer les gens qui n'ont pas acquis le droit aux prestations.

Les règles que nous proposons permettront que ces montants perdus demeurent dans le régime mais réduiront toutefois le droit à déduction des autres participants, s'ils en profitent, à moins que l'argent serve à réduire la cotisation ultérieure de l'employeur.

Le président: Un employé peut-il profiter des droits à déduction en vertu du FE qu'un autre a perdu?

M. Lynn: S'il a suffisamment de droits à déduction.

Le président: Pourquoi le facteur d'équivalence n'est-il pas particulier à chaque personne? Il n'est certainement pas transférable.

M. Horner: Non.

Le président: Il n'est pas non plus cumulatif. Je ne peux pas rassembler un tas de jeunes employés qui n'ont pas de FE, saisir leurs droits et les ajouter aux miens?

M. Horner: Un autre cas spécial peut découler du calcul du FE, seulement lorsque quelqu'un quitte un régime en obtenant une allocation de fin d'emploi. Prenons le cas d'un participant à un régime à cotisations déterminées. Il quitte son poste après deux ans, alors que l'employeur a cotisé 3,000\$ en son nom. Comme il part avant d'avoir un droit acquis aux prestations, il ne peut recevoir les 6,000\$. Mais il avait un FE de 2,000 à 3,000\$ par année. À son départ, on lui accordera un facteur de rectification précisant qu'on ne lui a jamais crédité la somme de 6,000\$, afin qu'il ait droit—

Le président: Il a donc le droit d'ajouter cette somme.

M. Horner: C'est juste. Il récupère les droits à déduction pour les deux années supprimées. Par ailleurs, si le montant de 6,000\$ est affecté à un autre participant du régime, cette part devra être ajoutée au facteur d'équivalence qu'il a déjà. C'est donc négatif pour lui.

Le président: Comment sera-t-il ajouté? Pourquoi ne pas simplement retirer cet argent?

M. Horner: Imaginons qu'il y a six autres participants dans le régime, qui reçoivent chacun 1,000\$ et qui en avaient reçu autant l'année où le démissionnaire a renoncé à cette somme—

Le président: Donnez-moi des chiffres. Doit-on présumer qu'il y a un régime de retraite pour cinq participants? La cotisation de chacun est de 1,000\$ en plus des 1,000\$ de l'employeur. Le FE est donc de 2,000\$, non?

M. Horner: Vous avez raison.

Le président: Un participant démissionne après deux ans, sans droits acquis. Il y a donc 2,000\$ des fonds de l'entreprise dans le régime pour cet employé.

[Texte]

Mr. Horner: That is right.

The Chairman: Does the company take that money right back?

Mr. Horner: What normally happens now is the company leaves the money in, and it goes to the benefit of whatever plan members they decide.

The Chairman: Why would you do that? Why would you not force the company to take the money back? Why would you allow that money to continue to be sheltered? In other words, the shelter was created as a result of somebody who left the plan. Surely to goodness you would want that money back so that the earnings on that money would no longer be sheltered.

Mr. Horner: We are trying to be as flexible as we can while maintaining the limits, and so we have provided three options. The first option is that the employer can take it back, or he could use it to offset next year's contributions. Instead of putting in \$5,000, he could put in \$3,000 and use the two forfeitures to make up what his normal contribution would be.

The second option is that he could pay it out to plan members as cash income, which they would take into income and pay tax on. So if they wanted to say every dollar we ever put into this plan we will never take back, they could do that and still there would not be any excess tax assistance because the money has come out.

The third option is he could say I will make bigger contributions to the remaining plan members, but their PAs will rise accordingly, and so it will reduce their RRSP room. So in either of those three options our limits are protected.

• 2025

The Chairman: But what happens if the other plan members who have a PA of two here, and let us assume the allowable PA is five, and the other plan members have each contributed \$3,000 to their own RRSP, there is no allowable PA limit left.

Mr. Horner: The RSP limit is one year later, so they would not be ahead of themselves that way.

The Chairman: Oh, I see. They just have a nice big problem.

Mr. Horner: They just have less RSP room, because they got a bigger than normal benefit.

I really have outlined (f) earlier on. While there has been no deduction for employer DPSP contributions beyond \$3,500 and no deduction for any employee contributions, it has been possible to make those contributions on a non-deductible basis and, in the case of employee contributions, without any penalty as long as

[Traduction]

M. Horner: C'est juste.

Le président: L'entreprise reprend-elle cet argent?

M. Horner: L'entreprise laisse normalement l'argent dans le régime et ce sont les participants qu'elle choisit qui en profitent.

Le président: Pourquoi ferait-elle cela? Pourquoi ne pas forcer l'entreprise à reprendre l'argent? Pourquoi continuer de laisser cet argent à l'abri de l'impôt? Autrement dit, le départ d'un participant a créé un abri fiscal. Il me semble évident qu'il faudrait reprendre cet argent afin que les revenus qui en découleront ne soient plus à l'abri de l'impôt.

M. Horner: Nous tentons d'être aussi souples que possibles tout en faisant respecter certaines limites. C'est pourquoi nous offrons trois options. La première permet à l'employeur de reprendre l'argent ou de l'utiliser pour réduire sa cotisation de l'année suivante. Ainsi, au lieu d'ajouter 5,000\$ au régime, il y mettrait 3,000\$ et utiliserait les deux montants perdus pour arriver à la cotisation annuelle.

La deuxième option permet à l'employeur de redistribuer l'argent comptant aux participants du régime, ce qui deviendrait pour eux un revenu imposable. S'il voulait que chaque dollar investi dans le régime y demeure, il pourrait agir ainsi et l'aide fiscale ne serait toujours pas excessive parce que l'argent aurait été repris.

En choisissant la troisième option, la cotisation de l'employeur est augmentée pour chacun des autres participants au régime, mais leur FE est augmentée proportionnellement, ce qui abaisse leur plafond de REER. On voit donc qu'avec chacune des options, nos plafonds sont respectés.

Le président: Mais qu'arrive-t-il si les autres participants ont un FE de 2, en présumant que le maximum est de 5, ont chacun contribué 3,000\$ à leur propre REER? Ils arrivent au maximum du FE.

M. Horner: Le plafond du REER n'est que pour l'année suivante et ainsi ils ne peuvent pas le dépasser cette même année.

Le président: Je vois. Mais ils auront un gros problème.

M. Horner: Le plafond de REER est simplement rabaisé parce qu'ils ont reçu des prestations plus élevées que la normale.

J'ai parlé en détail du point (f) plus tôt. Il n'y a pas de déduction pour les cotisations d'un employeur à un RPDP si elles ne dépassent pas 3,500\$ et il n'y en a pas non plus pour les cotisations des employés. Il est donc possible que les cotisations ne fassent pas l'objet de déduction et, dans le cas de celles de l'employé, sans qu'il

[Text]

the contribution was not over \$5,500. And those get benefits just from the non-taxation of interest.

The (g) is really the same, but with employees making excess RSP contributions on a non-deductible basis. So it is the same kind of tax break. Our limits are now, with the carry-forward, a kind of continuing cumulative balance from year to year. We still see the need—

The Chairman: Why would you allow any unpenalized excess contributions?

Mr. Horner: Because they can arise sometimes with contractual arrangements with people with fluctuating earnings such as artists and performers. They are dealing with somebody who is paying them on a contractual basis, and they negotiate that money go in in the current year as $x\%$ of salary. With the lag in RSP limits by one year that could cause a problem, and we had to put in a buffer.

The Chairman: Everybody knows well in advance now what your limit is because your limit is based on the previous year's earnings.

Mr. Horner: The particular problem with the artists was that—

The Chairman: But surely their earnings that enable them to contribute to the 1991 tax shelter are based on their 1990 income, and they know their 1990 income at the end of 1990. Surely to goodness they cannot get trapped here.

Mr. Horner: The particular problem is, first of all, that they cannot be in a pension plan because they are self-employed.

The Chairman: They can be in an RSP, though.

Mr. Horner: But what they have negotiated is that the people who—they are not employers, I have forgotten what they are called, they have some strange name for them. . . . But say the producer of a show on CBC or something will pay them. But they may have no connection with him in the next year, so they need to have that payment right at the time they have rendered the service, which is, if they rendered in 1990, that payment has to come in 1990; they cannot hold it over to 1991. That was the problem. So we worked out this allowance, which we felt was a lot tighter than the existing rules but would still provide the flexibility to allow their arrangement to continue.

The last one on the page, (h), is perhaps the most dramatic kind of abuse and one that really can only be dealt with by having a system of limits that works on a multi-year basis rather than on a single-year basis. The example is that somebody delays joining a plan and makes maximum RSP contributions for a period of years—I have said 10 in the example—and then arranges to be provided with maximum pension benefits on a past-service basis for those same 10 years. So the person really has the full benefit of the RSP limits for a non-plan member and then

[Translation]

y ait de pénalité si elles ne dépassent pas 5,500\$. Ils peuvent donc profiter du fait que les intérêts ne sont pas imposables.

Le point (g) présente le même exemple, sauf que les cotisations des employés sont excessives et non déductibles. Avec le report des cotisations, nos limites permettent maintenant un bilan cumulatif d'année en année. Il demeure nécessaire—

Le président: Pourquoi permettez-vous des cotisations excessives, sans pénalité?

M. Horner: Elles peuvent survenir dans le cas de contrats particuliers pour des personnes dont les revenus varient, comme les artistes. Leur rémunération fait l'objet d'un contrat et ils demandent que cet argent soit calculé pour l'année courante, comme pourcentage de leur salaire. Avec le décalage d'un an du plafond du régime d'épargne-retraite, cela pourrait poser un problème et il nous fallait créer un mécanisme pour l'éviter.

Le président: Chacun sait maintenant bien à l'avance quel est son plafond parce qu'il est calculé en fonction des revenus de l'année précédente.

M. Horner: Le problème des artistes était que—

Le président: Mais l'abri fiscal de 1991 est sûrement calculé d'après les revenus de 1990 et à la fin de 1990, ils connaissent certainement ce chiffre. Il n'y a pas moyen de se tromper.

M. Horner: Le problème particulier aux artistes c'est qu'ils ne peuvent participer à un régime de retraite parce qu'ils sont leur propre employeur.

Le président: Ils peuvent toutefois participer à un REER.

M. Horner: Mais ils ont négocié que leurs employeurs, . . . Le terme n'est pas bien choisi, on leur donne une autre appellation. . . . Disons le producteur d'une émission à Radio Canada qui leur verse des cachets. Comme ils n'ont aucun lien avec lui l'année suivante, il faut que leur rémunération leur soit versée dès que le service est rendu, c'est-à-dire, s'ils travaillent en 1990, leur salaire leur est versé en 1990. Il ne peut être reporté sur 1991. Voilà le problème. Nous leur avons donc donné cette permission, qui à notre avis était tout de même plus stricte que les règles actuelles tout en donnant la souplesse nécessaire pour qu'ils puissent continuer à s'organiser de la même manière.

Celui du haut de la page, le point (h), est peut-être le type d'abus le plus grave et qui ne peut être évité que grâce à un système pluriannuel en remplacement d'un système annuel. C'est l'exemple de quelqu'un qui ne participe pas à un régime de retraite tout en versant les cotisations maximales à un REER pendant un certain nombre d'années—j'ai mis dix ans dans l'exemple—et qui demande à avoir des prestations de pension maximales, à titre de services passés, pour ces dix années. Cette personne a donc joui pleinement des plafonds de REER

[Texte]

the full benefit of the pension plan limits. Without some way of addressing this problem, it was really impossible to consider any increase in the RSP limits from what they were. The treatment of past-service benefits in which a past-service pension adjustment computed, reported, and charged against the person's carry-forward balance provides a multi-year accounting and solves that problem.

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The example (i) has to do with transfers where somebody earns pension benefits and then cashes the entire set of benefits out, but on a favourable basis. Because of social concerns about the situation of people who are forced to retire early, our system has special benefits that are permissible for people who retire before say 65. That they can have the same pension without any actuarial reduction is one kind of benefit, despite the fact that it is going to cost a lot more because it will be paid for more years. The second kind are called "bridging benefits", which are add-on benefits that allow for the fact that the person is not going to be getting old age security or the Canada or Quebec Pension Plan benefits until a later date, such as 65.

What can be done now, and the knowledge about it was spreading and becoming more attractive in the executive community, was to take your pension benefits at a reasonably early age, with the benefits as rich as possible in terms of early retirement benefits, and then transfer the whole lump sum—you might be talking about \$800,000 or something like that—to an RRSP, where you could defer the receipt of all those early retirement benefits until age 71, by which time you are no longer talking about a \$60,000 pension, you are talking about twice as much. The main change that attacks that extra tax deferral is that we are limiting the amount of a cash-out of defined benefit plans that can be rolled into an RRSP to restrict two things, really: those early retirement benefits being used as the basis for additional tax deferral, and secondly to control people using just very favourable assumptions, discounting future benefits at a very low rate of interest, for example.

Example (j) is one we have mentioned before, which is the control over roll-overs, which in the same way as (i) but perhaps less dramatically can result in a great increase in pension levels above the limits by putting pension that you receive back to work for you again.

Mr. Parker: I certainly do not want to defend this action, because I think it is wrong, but by the same token I have a little bit of compassion for the person at 40 years of age who decided under the system, as he saw it at that time, to take his pension at that age and decided that these

[Traduction]

visant ceux qui ne participent pas à des régimes de retraite puis a joui pleinement des avantages des plafonds de régime de retraite. Sans régler ce problème, il était impossible d'envisager des augmentations des plafonds de REER. On utilise un facteur d'équivalence pour services passés qui modifie le résultat imputé au dossier de chaque personne afin d'avoir un système pluriannuel qui règle ce problème.

L'exemple (i) porte sur les transferts de pension. Quelqu'un peut ainsi gagner des prestations de retraite dont il demande la valeur convertie, maximisée par des hypothèses économiques favorables. En raison de préoccupations sociales se rapportant aux personnes qui sont forcées de prendre leur retraite précocement, notre système comporte des avantages spéciaux pour les retraités de moins de 65 ans. Ils ont ainsi droit à une pension sans réduction actuarielle malgré le fait que cela reviendra plus cher puisque les prestations seront payées pendant de plus nombreuses années. Le deuxième avantage est la prestation de transition, qui est l'ajout de prestations supplémentaires pour compenser le fait que cette personne ne recevra pas de prestation du RPC ni du Régime des rentes du Québec avant d'avoir 65 ans.

Ce qui peut encore se faire, et ce qui est de plus en plus connu notamment au sein de la population des cadres, c'est de prendre ces prestations de retraite tôt, au moment où les prestations sont aussi élevées que possible pour ce qui est de la retraite et de les transférer, en un montant forfaitaire—on peut peut-être parler de 800,000\$, par exemple—à un REER. On peut donc retarder le versement de ces prestations de retraite anticipée jusqu'à l'âge de 71 ans, ce qui constitue non pas une pension de 60,000\$, mais peut-être du double. Le principal changement pour supprimer leur report d'impôt supplémentaire est le plafond pour le montant forfaitaire du régime à prestations déterminées qui peut être transféré à un REER. On veut ainsi apporter deux restrictions: l'une aux prestations de retraite anticipée utilisées pour un report d'impôt supplémentaire et ensuite, le nombre des personnes qui utilisent des hypothèses économiques favorables pour omettre des avantages économiques ultérieurs, par exemple en utilisant un taux d'intérêt peu élevé.

Nous avons déjà parlé de l'exemple du point (j). Il s'agit de limiter les transferts de pension, de la même façon qu'au point (i). Dans une moindre mesure, on pouvait également augmenter les niveaux de pension au-dessus des plafonds en réinvestissant ces revenus de pension.

M. Parker: Je ne veux certainement pas défendre ceux qui agissent ainsi, puisque c'est à mon avis c'est préhensible, mais je ne peux m'empêcher d'avoir un peu de compassion pour la personne qui a décidé de prendre sa retraite à 40 ans parce que ces options lui

[Text]

options were available to him. Now all of a sudden the rules have been changed and this individual finds that he cannot do this any longer.

Mr. Horner: The policy was announced over five years ago—

Mr. Parker: I see.

Mr. Horner: —with a starting date of 1990, and then for those we talked about before who may have inadequate survivor benefits a further transition period has been allowed.

I guess the other comment I would make is that most 40-year-olds are not really retiring at that age, they are doing some other work and in that other work they will earn RRSP room, or else earn more pension benefits, and they can use that other RRSP room if they earn another \$20,000.

Mr. Parker: That is a valid explanation. If he was aware something like this could happen, then I can understand it.

The Chairman: When was he aware? Five years ago, you said. That is 1982, 1983.

Mr. Horner: Probably 1985. In the discussion paper it proposed getting rid of roll-overs, and that was 1984, and it was a budget proposal in 1985, with a starting date of 1990. That date was unchanged in the white paper in 1986 and in the draft legislation in 1988 and in the current legislation. So the date has been fixed since the May 23, 1985 budget.

• 2035

The Chairman: Nonetheless, somebody who retired from the armed forces in early 1985, 40 years old, and who has been rolling over his income is all of a sudden being cut off.

Mr. Horner: That is true.

The Chairman: When they retired from the armed forces they may or may not have had a choice, but they certainly retired on the representation that they could roll this money over. That was a pledge given to them by presumably their commanding officer and military pension adviser, a Government of Canada employee, employed by us.

Mr. Horner: I think it is also true that pension roll-overs have become popular since people heard they existed and heard they were going to stop. I do not know how—

The Chairman: They have been fairly popular for people in the armed forces and firemen and policemen and that sort of thing for quite a long time. These are people whose careers are clearly shortened, who get this benefit, who really are not expected to retire and live on this for the rest of their lives, and who have always had the opportunity to be able to roll it over and re-invest the

[Translation]

étaient offertes. Soudainement, les règles sont changées et cette personne ne peut plus se prévaloir de ces mesures.

M. Horner: La politique a été annoncée il y a plus de cinq ans—

M. Parker: Je comprends.

M. Horner: —avec une date prévue d'entrer en vigueur, soit 1990. Pour ceux dont les pensions de survivant sont insuffisantes, la période de transition est prolongée.

J'aimerais faire une autre observation. La plupart des retraités de 40 ans ne prennent pas vraiment leur retraite, mais se trouvent un autre emploi. Grâce à ce nouvel emploi, ils ont droit à un plafond de REER, ou ils peuvent gagner d'autres prestations de retraite. Ils peuvent utiliser le nouveau plafond de REER s'ils ont un revenu de 20,000\$.

M. Parker: C'est une bonne explication. Si le retraité est conscient que cela peut arriver, je comprends.

Le président: Quand l'aurait-on mis au courant? Vous dites il y a cinq ans. Il s'agit donc de 1982 ou 1983.

M. Horner: Probablement 1985. Dans le document d'information de 1984, on proposait l'élimination des transferts de pension. Cette proposition se trouvait également dans le budget de 1985, avec une entrée en vigueur prévue pour 1990. La date est demeurée la même dans le Livre blanc de 1986, dans l'avant-projet de loi de 1988 et dans le projet de loi actuel. Elle n'a donc pas changé depuis le budget du 23 mai 1985.

Le président: Il reste qu'un militaire qui a pris sa retraite à 40 ans, au début de 1985 et qui a toujours transféré sa pension se trouve soudainement frustré de cette possibilité.

M. Horner: C'est vrai.

Le président: Peut-être qu'il avait le choix lorsqu'il a pris sa retraite, mais avant qu'il prenne sa décision, on l'avait sûrement avisé qu'il pourrait transférer sa pension. C'était un engagement pris probablement par son commandant ou son conseiller militaire, de toute façon un fonctionnaire du gouvernement, un de nos employés.

M. Horner: Il est certainement vrai que le transfert de pension est devenu populaire depuis qu'on connaît son existence et depuis qu'on sait qu'il va être illimité. Je ne sais pas comment. . .

Le président: Cette mesure a certainement été populaire auprès des militaires, des pompiers et des policiers depuis quelque temps déjà. La carrière des gens qui profitent de cette avantage est relativement courte. On ne s'attend vraiment pas à ce qu'ils prennent leur retraite et qu'ils aient cette pension pour seul revenu. Jusqu'ici, ils avaient la possibilité de transférer leur pension pour

[Texte]

income in a further pension. We have not given them the opportunity to take their money back and not receive their pension.

Mr. Lynn: They could do that. They could defer it until they want to retire. It is not very advantageous. It is better for them to take it and invest it.

The Chairman: It may be better for them not to take it, now that they cannot roll it over. As long as they could roll it over it was better for them to take it and roll it over into their own plan. But it may well not be better for them to take it and roll it over or take it if they cannot roll it over.

Mr. Lynn: No, but they can invest it.

Mr. Horner: That would only be true if they were going to get a higher pension if they did not take it. If they had a pension coming to them of \$25,000, for example, not taking it would cost them the after-tax on the \$25,000—

The Chairman: Oh, I know that, but surely to goodness any realistic employer who had to pay out a \$25,000 per annum pension to people age 40 would be delighted to pay out a \$50,000-a-year pension to people of age 55.

Mr. Horner: They could not, because it would be beyond maximum, because they are already providing a very generous benefit by providing a full pension as if they had already attained age 60, all the way from age 40. That would be a real doubling-up of. . . In fact, that is the doubling-up that occurs through the roll-over.

The Chairman: What we are saying is first we are preventing people in this particular position from leaving their money in the pension plan and having the money grow in the pension plan they are in, or secondly we are making them take the money and we are making them pay tax on it.

Mr. Lynn: As income—and the balance they could invest.

The Chairman: Sure. I appreciate that.

Mr. Horner: The average plan member who is not in the armed forces and who left a plan at age 40 would get a pension, if he chose to take a pension from age 40, that would be reduced to probably under half the pension he would have if he left it in the plan to age 60. So in effect they are getting an increase by leaving it in the plan. But that would not be appropriate for a member of the armed services, because they are not having that reduction if they have the pension commence at such an early age. They have a special provision that allows them to have a full pension as if they were age 60. It is already a very generous benefit.

Mr. Parker: Just another hypothetical point here. Suppose there were a military person at age 40 or 45 and he had his 20 or 25 years in, so he was qualified, and he was approached to run as a Member of Parliament. So he

[Traduction]

avoir un revenu de retraite ultérieur. Nous ne leur avons pas donné l'occasion de reprendre leur argent et de cesser de recevoir leur pension.

M. Lynn: Ils pourraient le faire. Ils pourraient reporter leur pension jusqu'à leur véritable retraite. Mais ce n'est pas très avantageux. Il est préférable pour eux de recevoir la pension et de l'investir.

Le président: Ce sera certainement préférable pour eux de ne pas toucher leur pension étant donné qu'ils ne peuvent pas la transférer. Quand ils pouvaient la transférer, il était préférable de la toucher et de la transférer dans leur propre régime de retraite. Mais désormais, il sera sans doute préférable de ne pas la toucher puisqu'ils ne peuvent plus la transférer.

M. Lynn: Non, mais ils peuvent faire des placements.

M. Horner: Uniquement si attendre quelques années signifiait une pension plus élevée. Si leur pension était de 25,000\$, par exemple, tout ce que cela leur coûterait de ne pas la toucher serait l'impôt payé sur le 25,000\$. . .

Le président: Je sais bien. Mais il est évident que tout employeur réaliste qui doit verser une pension de 25,000\$ par an à un retraité de 40 ans serait très heureux d'attendre et de verser une pension de 50,000\$ par année à un retraité de 55 ans.

M. Horner: Il ne le pourrait pas parce que cela dépasserait le maximum. Il offre déjà une pension très généreuse, comme si le retraité avait 60 ans et cela, à partir de l'âge de 40 ans. Ce serait vraiment un doublement. . . En fait, c'est le dédoublement qui se produit grâce au transfert de pension.

Le président: Ce que je veux dire, c'est que nous empêchons les gens qui sont dans cette situation de laisser leur argent croître dans un régime de retraite ou que nous les obligeons à toucher cet argent et à verser des impôts sur ces revenus.

M. Lynn: Ils paieront des impôts mais pourront investir le reste.

Le président: Certainement, je comprends.

M. Horner: Le participant moyen à un régime de retraite qui n'est pas un militaire et qui quitte son emploi à 40 ans touche une pension, mais elle est probablement inférieure de moitié à la pension qu'il peut toucher à 60 ans, s'il décide d'attendre. En laissant l'argent dans le régime de retraite, on a au bout du compte un meilleur revenu. Mais ça n'est pas intéressant pour un membre des forces armées. En effet, la pension des militaires n'est pas réduite, même si elle est versée aussi tôt. Une disposition spéciale leur permet de toucher leur pleine pension, comme s'ils avaient 60 ans. C'est déjà un avantage considérable.

M. Parker: Je vais poser une question hypothétique. Imaginons qu'on demande à un militaire de 40 ou 45 ans, comptant 20 ou 25 années de service reconnu, d'être candidat à des élections fédérales. Il décide de transférer le

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decided to take his retirement and roll it over. He got elected, served four years, was defeated, and never got elected again. So he lost his military pension. He lost his MP's pension because he has not gotten the qualified time in and the roll-over provisions are not there now.

• 2040

Mr. Horner: I do not understand why he has lost the armed forces pension. He would continue to earn that pension.

Mr. Parker: Right, at age 45. He has taken a reduced amount. . .

Mr. Horner: But an armed forces person does not have to take a reduced amount.

Mr. Parker: He has already taken his pension. He has decided to roll it over; he does not need it. He is going to run as a Member of Parliament. He runs and two years later he is defeated. He has not had enough contributions to carry on another pension scheme, and yet he cannot go back to the military, because he has left.

Mr. Horner: He would not have to give up his military pension. I am not sure what the rules are for MPs. He may well have to cease receiving that pension during his term as a Member of Parliament. But he would not give up any permanent right to that military pension.

The Chairman: He continues to receive his military pension as a Member of Parliament.

Mr. Horner: I presume so.

The Chairman: He can roll over that armed service pension. But there is the issue of members who have a plan that does not vest in two years. We have all sorts of members who have made very substantial contributions and who wind up getting defeated and then get very substantial cheques. They get all their money back at 4%. Having been a member who got all his money back at 4%, I know all about it. You get it all back at 4% and they send you a tax bill.

Mr. Horner: Those are two separate issues. In your example, the thing that is wrong from a policy point of view is the four-year vesting. The federal and provincial governments have said they want two-year vesting as a minimum, but the federal government has not yet got around to putting this into effect. However, there is proposed legislation slated to be put forward by Mr. de Cotret that would bring the Public Service pension plan and the MPs pension plans on-line with two-year vesting. The answer is to solve the problem, rather than trying to move it through the back door.

Mr. Parker: I think that when people have made decisions with regard to roll-overs, given up the career

[Translation]

montant de sa pension en franchise d'impôt. Il se fait élire, est député pendant quatre ans, est défait et n'est jamais réélu. Il a donc perdu sa pension militaire. Il a aussi perdu sa pension de député parce qu'il n'a pas été député assez longtemps et la disposition de roulement n'existe plus.

M. Horner: Je ne comprends pas pourquoi il perdrait la pension des forces armées. Il devrait continuer d'y avoir droit.

M. Parker: En effet, à 45 ans, il aurait accepté un montant réduit. . .

M. Horner: Mais un membre des forces armées n'est pas obligé d'accepter un montant réduit.

M. Parker: Il aurait déjà touché sa pension, qu'il aurait décidé de transférer en franchise d'impôt parce qu'il n'en avait pas besoin vu qu'il allait être candidat aux élections. Il est élu, et deux ans plus tard il est battu. N'ayant pas cotisé suffisamment longtemps pour être admissible au régime de pension des députés, il ne peut pas recommencer à cotiser à la caisse des militaires parce qu'il a quitté les forces armées.

M. Horner: Il n'est pas forcé de laisser tomber sa pension militaire. Je ne connais pas vraiment les règles pour les parlementaires, mais il se peut qu'il soit obligé de cesser de recevoir ses prestations de pension pendant qu'il est député. Cependant, il n'est pas obligé d'abandonner définitivement son droit à sa pension militaire.

Le président: Il peut toucher sa pension militaire pendant qu'il est député.

M. Horner: J'imagine que oui.

Le président: Il peut transférer sa pension des forces armées en franchise d'impôt, mais il reste le problème des députés dont le régime ne donne pas de droits acquis après deux ans. De nombreux députés versent des cotisations très élevées et reçoivent ensuite de très gros chèques après avoir été défaits aux élections. Le plein montant de leurs cotisations plus quatre p. 100 leur est rendu. J'en ai fait moi-même l'expérience. Vous recevez le plein montant de vos cotisations plus quatre p. 100 et une facture d'impôt.

M. Horner: Ce sont deux choses séparées. Dans votre exemple, ce qui ne va pas du point de vue de la politique, c'est la question de droits après quatre ans. Les gouvernements fédéral et provinciaux ont dit qu'ils voulaient une période minimale de deux ans pour l'acquisition de droits, mais le gouvernement fédéral ne l'a pas encore instaurée. Cependant, M. de Cotret doit présenter une mesure législative qui instaurerait l'acquisition de droits après deux ans pour le régime de pension de la Fonction publique et les régimes de pension des députés. La meilleure chose à faire, c'est de résoudre le problème au lieu d'essayer de le contourner.

M. Parker: Quand quelqu'un décide de transférer le montant de sa pension en franchise d'impôt parce qu'il

[Texte]

they were following, and started something else, it creates a problem to change the rules all of a sudden.

Mr. Horner: The option was to provide a grandfather for people who had retired before a certain date. But that means that Revenue Canada has to invent a system for knowing whether a given amount of pension income started before a certain date or not. And it provides a very generous grandfather for years and years to one group, and no grandfather to another group. It seemed a better approach to bring in a deferred implementation of this. Of course the problem is that there has been so much consultation that we have caught up with our deferral period.

The Chairman: Carry on. We are on section (k).

Mr. Horner: Revenue has looked at pension contributions on the basis of whether or not there has been a deduction, rather than looking at whether contributions should be allowed to a plan, deduction or not. This has permitted employers who are tax-exempt or non-taxable in a year to contribute even when there have been surpluses in plans, with the result that there have been some very large surplus build-ups.

• 2045

I think the one horror story that Catherine told me some time ago concerned a plan that had a surplus equal to something like 45 years' worth of current costs. Our rules will control what can be paid into a plan regardless of whether or not the employer is seeking a deduction. There will be an allowance for a certain amount of surplus to protect against the plan in an adverse investment performance.

Mr. Attewell: Why is that a problem? Is it tax assisted?

Mr. Horner: It really is. If the money is ultimately owned by the employee and will be paid out later, the employee has that money sitting in a tax-sheltered account earning interest on a non-taxable basis.

The Chairman: What really has happened is the employer has put the money up, the employer has not gotten a tax deduction for it. It sits in an account that is for the benefit of the employee. The company winds itself up. The pension plan is eventually wound up. The employee is the only beneficiary of the pension plan, and whoopeedee!

Mr. Attewell: Is there not a difference there? Like on the Massey Ferguson plan, I forget the details, but there was a big legal case on that in terms of their stripping out the surplus. An employee or a pensioner, you are only entitled to *x* amount according to your contribution, and so on. And employers, where there is a surplus there through lay-offs or whatever, I understand it is legal to take that back into say the company's surplus.

[Traduction]

change de carrière, cela pose un problème si les règles du jeu changent tout à coup.

M. Horner: On aurait pu décider d'appliquer les anciennes règles à ceux qui avaient pris leur retraite avant une certaine date. Cela aurait cependant obligé Revenu Canada à inventer un système pour déterminer si un montant donné du revenu de pension avait été versé avant une certaine date ou non. En outre, cela aurait donné des avantages très généreux à certains pendant des années. Il semblait préférable de reporter l'entrée en vigueur de ces dispositions. Bien entendu, il y a eu tellement de consultations que nous sommes arrivés au bout de notre période de report.

Le président: Continuez. Nous sommes maintenant à l'alinéa k).

M. Horner: Jusqu'ici, Revenu Canada a examiné les cotisations de pension pour déterminer s'il y avait eu des déductions d'impôt au lieu de s'interroger sur l'opportunité d'autoriser les cotisations, l'impôt n'étant pas un facteur. Cela a permis aux employeurs qui sont exonérés d'impôt ou qui n'ont pas d'impôt à payer une année donnée de cotiser à un régime même lorsque celui-ci est excédentaire. À cause de cela, des excédents très importants se sont accumulés.

Le fait horrible que Catherine m'a raconté il y a quelque temps avait trait à un régime pour lequel on avait accumulé un excédent équivalent aux frais courants pour environ 45 ans. Les nouvelles règles détermineront ce qui peut être versé à un régime, que l'employeur demande une déduction ou non. On autorisera un certain excédent pour parer à l'éventualité que les investissements du régime ne rapportent pas suffisamment de bénéfices.

M. Attewell: Pourquoi est-ce un problème? Y a-t-il une aide fiscale pour ce genre de chose?

M. Horner: En réalité, oui. Si l'argent appartient vraiment à l'employé il lui sera versé plus tard, cela veut dire que l'employé a de l'argent dans un compte exonéré d'impôt qui lui rapporte des intérêts non imposables.

Le président: Ce qui s'est produit en réalité, c'est que l'employeur a versé cet argent et n'a pas obtenu de déduction d'impôt en retour. L'argent reste dans un compte qui profitera à l'employé. Supposons que l'entreprise fasse faillite et que le régime de pension soit liquidé. L'employé serait le seul bénéficiaire du régime de pension, et voilà!

M. Attewell: N'y a-t-il pas une différence? J'oublie les détails, et pour le régime de Massey Ferguson par exemple, il y a eu tout un litige parce que la compagnie avait retiré l'excédent de la caisse de retraite. Un employé n'a droit qu'à un montant déterminé en fonction de ses cotisations. Lorsque le régime de pension est excédentaire à cause de congédiements ou d'autres facteurs, je pense que la loi permet à l'employeur de reprendre l'excédent pour le verser, par exemple, aux bénéfices de l'entreprise.

[Text]

Mr. Horner: That is right, but the question of ownership of the surplus is really a separate question from that of whether or not companies that are not in terminating situations should be allowed to continue to build up a surplus, to continue to contribute when through good investment performance, for example, they have gotten into a surplus position. If the result is that money they would otherwise pay to an employee and that would be part of the employee's taxable income can go into an account that the employee will eventually get as a pay-out of surplus or through some other way in the future, it is very advantageous for the employee.

Mr. Attewell: Would that be a plan whereby the overall assets of the pension plan will be directed only back to the employees?

Mr. Horner: Our rules do not say anything about who owns the assets in the plan; that really depends on the contractual arrangements between the employer and the employee. There is a policy issue around the ownership of surpluses, but that is really more a pension benefits, consumer protection type of issue, and the aim of the tax rules is really to look to the future and say we do not want the purposeful development of surpluses in plans. We do not mind you adequately funding the plans and making the benefits secure for the employees, but you should not be able to continue to fund when the plan is more than adequate to provide the promised benefits.

Mr. Attewell: What am I missing there, though? If it is not tax assisted when it is contributed, where is the government's loss?

Mr. Horner: Consider one individual who earns \$50,000 and there is no pension plan but he takes \$5,000 and puts it in an RRSP; he has taxable income after that deduction of \$45,000, so he pays tax on \$45,000. Consider another individual whose take-home pay is \$45,000 but the employer has made a \$5,000 contribution to a plan; he will eventually get that \$5,000 plus interest back, regardless of whether it was a surplus contribution or not—that employee really has economic income of \$50,000, same as the first employee. Again like the first employee, he only pays tax on \$45,000 and he has \$5,000 working for him in a tax-free account.

• 2050

It really does not make any difference whether that second employee's employer was taxable or not. That employee, if you look at that contribution, it has really been on behalf of the employees. You can think of it as being an amount that would otherwise be paid to the employees and either deductible or taxable in their hands.

So we really take the stance of looking through whether the employer is taxable or not... Once the money is put into a plan it is held there on behalf of the employee and should be considered just as if the

[Translation]

M. Horner: C'est exact, mais la question de savoir à qui appartient l'excédent n'a rien à voir avec la question de savoir si les entreprises qui ne sont pas sur le point d'être liquidées devraient pouvoir continuer à accumuler des excédents et à les verser à la caisse de pension lorsque les investissements du régime ont produit un bon rendement, par exemple. Si cela veut dire que l'argent qui serait sinon payé à l'employé et qui ferait partie de son revenu imposable peut être versé à un compte dont l'employé recevra tôt ou tard sa part, et c'est très avantageux pour celui-ci.

M. Attewell: S'agirait-il d'un régime où l'actif global servirait uniquement à verser les prestations aux employés?

M. Horner: Les règles ne disent rien à propos des propriétaires de l'actif d'un régime; cela dépend des arrangements contractuels entre l'employeur et les employés. La propriété des excédents pose un problème de politique, mais plutôt du point de vue des prestations de pension et de la protection des consommateurs. Ces règles visent en réalité à empêcher l'accumulation intentionnelle d'excédents dans les régimes de pension. Nous sommes bien d'accord pour qu'un régime soit bien capitalisé et que les employés soient assurés d'obtenir leurs prestations, mais l'employeur ne devrait pas pouvoir continuer à capitaliser le régime lorsque celui-ci est amplement suffisant pour verser les prestations promises.

M. Attewell: Qu'est-ce que je n'ai pas saisi? Si les cotisations ne sont pas exonérées d'impôt, qu'est-ce que le gouvernement perd?

M. Horner: Prenons l'exemple d'une personne qui gagne 50,000\$ et qui n'a pas de régime de pension mais qui investit 5,000\$ dans un REER. Son revenu imposable sera de 45,000\$ après la déduction. Prenons maintenant quelqu'un d'autre dont le revenu net est de 45,000\$, mais dont l'employeur a cotisé 5,000\$ à un régime quelconque. Il récupérera éventuellement ses 5,000\$ plus les intérêts, peut importe que cette cotisation ait été excédentaire ou non. Cet employé a en réalité un revenu de 50,000\$, tout comme celui du premier exemple. Et, tout comme le premier, il ne paie des impôts que sur un revenu de 45,000\$ et il a 5,000\$ qui lui rapportent des intérêts dans un compte exonéré d'impôt.

Que l'employeur du deuxième employé soit imposable ou non n'a en fait aucune importance. Dans le cas de cet employé, la cotisation est en fait versée en sa faveur. On peut la considérer comme étant une somme qui, autrement, devrait être versée directement aux employés et être soit déductible, soit imposable lorsqu'il la touche.

Nous cherchons donc à voir si l'employeur est imposable ou non... Une fois que l'argent est versé dans le régime, il est gardé là pour le compte de l'employé et il faut raisonner comme si l'employeur l'avait versé à

[Texte]

employer had paid it to the employee and the employee got a deduction for it.

The Chairman: Let us carry on. That is (l), I believe.

Mr. Horner: There has been a shift, perhaps as a consequence of tax reform limiting other forms of tax preference, to have executives move out of broad company plans and put in single-person plans where they will own any surplus. In that kind of plan it makes sense for the executive and his employer to agree to fund the plan as richly as possible. It has been apparent that there has been a trend to do this very recently, and we have seen firms that are trying to merchandise plans where they are advertising how much you can put in this kind of an arrangement and how you can pay the surplus out eventually to the plan member. That has led us to institute tighter funding restrictions on plans that are top-hat plans.

Those new rules were not in the draft legislation in 1988. They are new in the proposed bill.

The next one, (m), is really quite a big one.

The Chairman: You have both the teacher and the doctor here. It is bad news.

Mr. Horner: Teaching doctors for this one. This one really is an arrangement that sprang up in the tax-exempt sector in the mid-1980s. The arrangement was that an employee would instruct the employer to put aside a certain amount of the money. Suppose the income were \$50,000 and the employee said: apart from all my pension arrangements, I want you to take another \$5,000 of my salary and put it in an employee benefit plan, which is really just a trust account for which I have the eventual right to benefits.

The Chairman: It would be a deferred promissory plan.

Mr. Horner: Well, no, it would be a non-registered plan.

The Chairman: A non-registered pension plan.

Mr. Horner: No, it is not a pension plan at all.

The Chairman: So this money is not deductible at all.

Mr. Horner: It is just a trust account.

The Chairman: So this money is not deductible—

Mr. Horner: That is correct.

The Chairman: —for the company or anybody.

[Traduction]

l'employé et que ce dernier avait obtenu une déduction fiscale correspondante.

Le président: Poursuivons. Nous en sommes au point (l), il me semble.

M. Horner: Il y a eu une évolution, peut-être en raison de la réforme fiscale qui limite les autres formes d'avantages fiscaux, qui fait que les cadres ne souscrivent plus à des régimes généraux mis sur pied par les entreprises, mais à des régimes personnels dont ils touchent les bénéfices. Avec ce type de régime, il est logique pour le cadre et pour son employeur de chercher à verser le plus d'argent possible dans le régime. Cette tendance est devenue particulièrement nette très récemment, et nous avons vu des entreprises s'efforçant de faire de la publicité pour des régimes en précisant les montants qui peuvent être versés avec ce type d'arrangement et en indiquant que le surplus pourra être remis plus tard au participant. Cela nous a amenés à émettre des restrictions plus strictes quant au montant d'argent pouvant être versé dans des régimes réservés aux cadres.

Ces nouvelles règles ne figuraient pas dans le projet de loi de 1988. Elles sont maintenant dans le nouveau projet de loi.

Le point suivant, soit le point m), est particulièrement important.

Le président: Il y a là à la fois l'enseignant et le médecin. C'est mauvais signe.

M. Horner: Il s'agit des médecins enseignants dans ce cas précis. Ce mécanisme est en fait apparu dans le secteur exonéré d'impôt dans le milieu des années 1980. Dans ce système, l'employé demande à son employeur de mettre de côté un certain montant d'argent. Supposons que l'employé gagne 50,000\$ dollars et qu'il dise à son employeur: en plus de mon régime de pension, je voudrais que vous retiriez 5,000\$ supplémentaires de mon salaire et que vous les placiez dans un régime de prestations pour employés, qui est en fait un compte fiduciaire, dont je pourrais ensuite profiter.

Le président: Il s'agit là en quelque sorte d'un régime différé.

M. Horner: Non, il s'agit d'un régime non enregistré.

Le président: Un régime de retraite non enregistré.

M. Horner: Non, ce n'est pas du tout un régime de retraite.

Le président: Cet argent n'est donc absolument pas déductible.

M. Horner: C'est simplement un compte fiduciaire.

Le président: Cet argent n'est donc pas déductible—

M. Horner: C'est exact.

Le président: —ni pour l'entreprise, ni pour quiconque.

[Text]

Mr. Lynn: It is public sector. It is not a taxable body.

The Chairman: All right.

Mr. Horner: So they do not care about the deduction.

The employee benefit plan rules generally were that the investment earnings in the plan were taxable either in the hands of the trust at 50% or in the hands of any beneficiary to whom it was paid out. So the trick was that each year you take the investment returns, pay them back out to the employer, who is a university or school board or municipality or government of a province, and then it attracts no tax, because the employer is tax-exempt. The employer immediately recontributes it back into the plan. So what has been accomplished is exactly the same tax preference for the employee as if they had an extra RRSP with no limits except to the amount of their salary they chose to defer each year.

Those plans were merchandised by trust companies and were spreading far enough that I might say the Treasury Board came to us and asked, is there anything wrong if we set one of these up for the Public Service? There has been one in a provincial government, and in the MUSH sector they were going through very rapidly. That deal was eliminated when we increased the limit from \$5,500 to \$7,500. It was eliminated by replacing the employee benefit plan rules by the retirement compensation and arrangement rules, the RCA rules, that took effect in 1988. But they were really part of this reform.

• 2055

The last one is another game that people in contributory pension plans can play, whether or not their employer is taxable or not. In a plan where the employee contributes say 7% of earnings, which might be up to \$4,000 for a higher-income person, so that the RSP limit is zero, they arrange with the employer to let the employee receive a lower take-home pay if for each lower dollar of take-home pay the employer takes over the employee's former pension contribution. The net result of that is that the employee's take-home pay is the same. Sorry. . .

The Chairman: Wait a minute.

Mr. Horner: I made a mistake.

The Chairman: How do you take over somebody's. . . ?

[Translation]

M. Lynn: Nous parlons du secteur public. L'institution n'est pas imposable.

Le président: Très bien.

M. Horner: Elle n'a donc pas besoin de la déduction.

Selon les règles qui s'appliquent de manière générale au régime de prestations pour employés, les gains de l'investissement dans le régime étaient imposables, l'impôt devant être payé soit par la fiducie à 50 p. 100, soit par le bénéficiaire éventuel. Le mécanisme utilisé consistait donc pour l'employé, lorsqu'il touchait chaque année des intérêts sur son investissement, à les reverser à l'employeur—université, conseil scolaire, municipalité ou gouvernement provincial—sans avoir en conséquence à payer d'impôt, étant donné que l'employeur est exonéré du paiement de l'impôt. L'employeur reverse alors immédiatement ce même montant dans le régime. Le résultat, c'est que l'employé bénéficie ainsi d'un avantage fiscal qui revient au même que s'il disposait d'un REER supplémentaire sans aucun plafond, la seule limite étant la part de son salaire dont il est en mesure de se passer et qu'il est disposé à verser chaque année.

Ces régimes étaient commercialisés par les sociétés de fiducie et ils ont tellement proliféré que le Conseil du Trésor s'est adressé à nous un jour pour nous demander si nous voyions quelque inconvénient à ce que ce genre de régime soit institué pour la Fonction publique. Un gouvernement provincial s'était déjà doté d'un régime de ce type et dans le secteur des municipalités, des universités, des conseils scolaires et des hôpitaux on en voyait de plus en plus. Ce mécanisme a été supprimé lorsque nous avons fait passer le plafond des REER de 5,500\$ à 7,500\$. Il a disparu à la suite du remplacement des règles portant sur les régimes de prestations pour employés par les règles portant sur les conventions de retraite, qui sont entrées en vigueur en 1988. Mais tout cela faisait en fait partie de la réforme.

Le dernier point a trait là encore à un expédient auquel peuvent recourir les gens qui cotisent à un régime de pension, que leur employeur soit imposable ou non. Prenons le cas d'un régime dans lequel l'employé verse par exemple 7 p. 100 de ses gains, la cotisation pouvant atteindre 4,000\$ dans le cas des hauts revenus, de sorte que la limite du RER est égale à zéro. L'employeur et l'employé peuvent s'entendre pour que ce dernier reçoive un salaire réel moins élevé si, pour chaque dollar de moins que l'employé touche sur sa paye, l'employeur prend en charge l'ancienne cotisation de pension de l'employé. Le résultat net, c'est que la paye que touche effectivement l'employé est la même. Excusez-moi. . .

Le président: Attendez un instant.

M. Horner: J'ai fait une erreur.

Le président: Comment pouvez-vous prendre en charge pour quelqu'un d'autre. . . ?

[Texte]

Mr. Horner: Let me give an example. A \$50,000 employee contributes \$5,000 to the pension plan. His RSP limit is zero and his take-home pay is \$45,000. He tells the employer to drop his salary to \$45,000 and put the \$5,000 straight into the plan. Costs are not different, because instead of paying him \$5,000 they are putting it straight into the plan. They do not have any extra plan costs; the employee does not have any difference in take-home pay. The only difference is that the employee now has \$3,500 of RSP. That is a loophole that has so far been recognized only by executives.

There has been a shift to non-contributory arrangements, either non-contributory plans for higher-income people or forgiveness of contributions to them. But what with cutting off the employee benefit plans, which were used by sectors that tended to have contributory plans, this changed. If we had frozen the limits and rules as they were, it is almost a certainty that this would have spread through the school boards and other sectors.

Mr. Lynn: It could become quite costly if everybody got on that bandwagon.

The Chairman: You have not done anything about taking your money out by cashing the pension early, and you have not done anything about people deciding to use RRSPs as a vehicle to defer payment of current tax and use retirement as an excuse to have a tax holiday or a tax deferral. Is there nothing in this bill to force the money to be used for retirement?

Mr. Horner: No.

The Chairman: How come?

Mr. Horner: It is something that has been considered.

The Chairman: If we are going to sell this thing on the basis that we cannot expect the state to look after people in their retirement, surely to goodness we ought to have some provisions in the bill that make sure they in fact use the money for retirement and not use for it a glorified sheltered savings plan, particularly when we are talking of allowing people to save up to \$15,500, and allowing people to accumulate their savings potential up to 7 years.

There is nothing to prevent people from saving a lot of money and then deciding one year to pull the plug on the thing—I mentioned this earlier—pull the plug on it, go offshore and live in Bermuda for two or three years, collect it all and pay 25% on it, and then come back to

[Traduction]

M. Horner: Laissez-moi vous donner un exemple. Un employé qui gagne 50,000\$ verse 5,000\$ dans son régime de pension. Sa limite pour ce qui est du RER est égale à zéro et son salaire réel est de 45,000\$. Il demande à son employeur de ramener son salaire à 45,000\$ et de verser 5,000\$ directement dans le régime. Les coûts sont les mêmes parce qu'au lieu de lui verser 5,000\$, l'employeur verse le même montant dans le régime. Il n'y a pas de coûts supplémentaires du fait du régime; l'employé touche le même salaire réel. La seule différence, c'est que l'employé dispose maintenant d'une marge de cotisation de 3,500\$ dans le RER. C'est là une échappatoire qui, jusqu'à présent, n'a été utilisée que par les dirigeants d'entreprises.

Il y a eu une évolution en faveur des ententes non contributives, que ce soit sous la forme de régimes non contributifs s'adressant aux personnes à hauts revenus ou sous celle d'une renonciation aux cotisations devant être versées. Pour ce qui est de mettre fin aux régimes de prestations pour employés, dont se sont servis les secteurs ayant tendance à offrir des régimes contributifs, les règles ont changé. Si nous avions gardé les mêmes limites et les mêmes règles, il est à peu près certain que ce genre de mécanisme se serait répandu dans les conseils scolaires et les autres secteurs.

M. Lynn: Ça pourrait devenir assez cher, si tout le monde sautait sur cette occasion.

Le président: Vous n'avez rien fait au sujet des gens qui retirent très tôt l'argent de leur régime de retraite; vous n'avez rien fait en ce qui concerne les personnes qui se servent de leur REER pour reporter le paiement de l'impôt et qui profitent de la retraite pour éviter l'impôt ou obtenir un report. Rien dans ce projet de loi n'oblige le contribuable à se servir de cet argent pour sa retraite, n'est-ce pas?

M. Horner: Non.

Le président: Pourquoi?

M. Horner: Nous n'avons pas envisagé la chose.

Le président: À partir du moment où l'on cherche à présenter ce projet en disant qu'il ne faut pas s'attendre à ce que l'État prenne les gens en charge à la retraite, il faut bien que certaines dispositions du projet de loi fassent en sorte que ces gens utilisent bien cet argent pour leur retraite et ne s'en servent pas pour mettre leurs économies à l'abri de l'impôt, surtout lorsque l'on sait que l'on va autoriser les contribuables à déduire de l'impôt jusqu'à 15,000\$ en leur permettant de conserver leur droit de cotisation non utilisé pendant un maximum de sept ans.

Rien n'empêche les gens d'économiser beaucoup d'argent et de décider un jour de tout retirer, comme je l'ai déjà dit précédemment, de tout retirer, de quitter le pays et de s'en aller vivre aux Bermudes pendant deux ou trois ans, toucher leur argent et ne payer que 25 p. 100

[Text]

Canada, because they have a Canadian passport. Why not? They are Canadian citizens.

None of these protection devices are built in here, but you are allowing a very massive sheltering of money for people who are saving money that is being saved where they have complete control over the investment of that money, the use of the money, and so on. I am wondering what the thoughts of the department are and why was this not in the bill.

Mr. Horner: I think it is important to separate the issue of the offshore from the general issue and—

The Chairman: I put the offshore in because it means that you can in fact take the money out without even paying current taxes. You just pay the withholding tax on it. Lots of people are going to take the money out, indeed do take the money out and pay current taxes on it. In effect, they have a huge shelter of earnings on the money. What was the plan?

Mr. Horner: We will get back to you more fully on that issue.

I would like to address the larger issue, because it affects all Canadians, the question of lock-in and whether the funds should be specifically earmarked to stay until retirement and be used for retirement. We definitely do try to do the other end. We force the payments to start by age 71 so they cannot be deferred to become an estate planning device.

The Chairman: I appreciate that.

Mr. Horner: I guess I would note that earlier government green papers and the parliamentary task force did include recommendations to have a lock-in of RRSP moneys. I think in practice that the way the income tax works it would be very difficult to say you are not allowed to take this money out. Our penalty is that you deregister the plan. If they have already collapsed the plan, that is no penalty.

The Chairman: You have a different tax here. That is very simple. You have a huge penalty tax. You let people do it, but you whack the hell out of them.

Mr. Horner: That is what I was going to say. In practice, rather than creating a vehicle in which it was not allowed to take out, we did not find that proposal a workable one, but what would be a feasible option would be to have a penalty tax as they do on IRAs in the States, where they put an additional early withdrawal tax of 10% of the amount on withdrawals below age 60, or 59 and a half. The department looked at that and considered it. I

[Translation]

d'impôt, pour ensuite revenir au Canada, grâce à leur passeport canadien. Pourquoi pas, après tout? Ils sont citoyens canadiens.

Aucun mécanisme de protection de ce type ne figure dans ce projet de loi, et vous permettez aux gens de mettre à l'abri des quantités énormes d'argent et de garder le contrôle exclusif sur les investissements faits avec cet argent, l'emploi de cet argent, etc. Je me demande ce qu'en pense le ministère et j'aimerais savoir pourquoi ces dispositions ne figurent pas dans le projet de loi.

M. Horner: Il m'apparaît important de ne pas mêler la question de ceux qui vont à l'étranger et la question générale. . .

Le président: J'ai parlé de l'étranger parce que l'on voit dans ce cas qu'il est possible de retirer l'argent sans payer d'impôt. Il suffit de payer la retenue à la source. Beaucoup de gens vont retirer l'argent; il le font en fait et payent l'impôt correspondant. Dans la pratique, ils bénéficient d'un abri fiscal de taille pour les revenus tirés de cet argent. Quelle était l'idée?

M. Horner: Nous reviendrons sur cette question de manière plus détaillée.

Je voudrais aborder le problème plus large, car il touche tous les Canadiens, du blocage de cet argent et de l'éventualité de l'affecter précisément à un revenu de retraite. Pour ce qui est de la limite d'âge supérieure, nous nous sommes efforcés d'en établir une. Nous exigeons que les versements soient effectués au plus tard à 71 ans pour que l'on ne puisse pas se servir du régime pour reporter indéfiniment l'impôt dans le cadre d'un mécanisme de planification d'une succession.

Le président: Je comprends bien.

M. Horner: Je vous ferai remarquer que les livres verts du gouvernement précédent et du groupe d'étude parlementaire prévoient en fait des recommandations visant à bloquer l'argent des REER. Dans la pratique, il me semble que, d'après la façon dont fonctionne le régime de l'impôt sur le revenu, il serait très difficile de dire aux gens qu'ils ne peuvent pas retirer cet argent. Notre sanction, c'est que le régime est alors désenregistré. Les gens qui ont d'ores et déjà supprimé leur régime n'encourent aucune sanction.

Le président: C'est là qu'intervient un autre type de mesure fiscale. C'est très simple, l'impôt qui s'applique alors est prohibitif. Vous laissez les gens libres d'agir à leur guise et vous les assomez ensuite avec l'impôt.

M. Horner: C'est ce que j'allais vous dire. Dans la pratique, nous n'avons pas jugé possible de mettre en place un mécanisme interdisant de sortir l'argent, mais on pourrait appliquer une pénalité fiscale, comme le fait le «fisc» aux États-Unis, qui impose un impôt supplémentaire de 10 p. 100 sur le montant des retraits faits avant l'âge de 60 ans ou de 59 ans et demi. Le ministère s'est penché sur la question et a envisagé cette

[Texte]

guess it is fair to say that it is not something in which it is all black and no white. It is something in which there are competing views.

There were two reasons why it was not introduced. One has to do with the goal of encouraging savings, particularly in the small business sector, where there does not tend to be the same pension coverage. The employer does not know if he is going to be around in five years and the employee does not know if he is going to be employed in five years. Our concern was that if you put all of this in, it is locked in until retirement, you would in fact have fewer people contributing because they would be concerned they might be unemployed in a few years and need that money, and—

• 2105

The Chairman: We would collect more taxes then.

Mr. Horner: In fact we collect taxes faster, except for your Cayman Islands example, if they take it out quicker.

The Chairman: No, I mean the fact is that if they are not allowed to shelter under this scheme, we collect more taxes. The day they shelter for one year, your examples in this paper point out, they are better off. A person is better off to shelter for a year and then collapse the funds and take it out than someone who did not shelter and paid the tax.

Mr. Horner: But the person who takes the money out is giving up the rest of the lifetime of deferrals on that up to age 71, so there is already a deterrent on early withdrawal. A tax planner, except for the Cayman Island tax-man, will generally keep the money in because that is where the maximum tax advantage is.

The Chairman: It depends on how badly you need the cash.

Mr. Horner: That is not a tax-planning consideration, and I guess that really—

The Chairman: What I am saying is that while it is called a retirement savings plan, these people have no intention of using it for that purpose. They are using it for a tax-deferral plan. In other words, you defer the tax and the money, you invest all of the money for the five or six or seven years you have in mind, then you cash it. You have gotten the advantage of the deferral, that is what I am getting at.

Mr. Horner: But that person would have an even greater advantage if they did not cash it, if they left it in to retirement.

The Chairman: Why? It depends on your need for the money.

[Traduction]

mesure. Je dirais que la question est loin d'être tranchée. Les avis sont contradictoires là-dessus.

Nous n'avons pas mis en place cette mesure pour deux raisons. La première, c'est que nous voulions encourager l'épargne, tout particulièrement dans le secteur des petites entreprises, où les pensions n'ont pas tendance à être aussi généreuses. L'employeur ne sait pas s'il sera toujours en activité dans cinq ans, et l'employé s'il occupera toujours son poste dans cinq ans. Notre crainte, si nous bloquons tout cet argent jusqu'à la retraite, c'est qu'il y ait moins de gens qui cotisent de peur de se retrouver au chômage quelques années plus tard, d'avoir besoin de cet argent. . .

Le président: Vous pourriez alors percevoir davantage d'impôt.

M. Horner: Oui, nous pourrions percevoir davantage d'impôt, sauf si l'on prend votre exemple des Îles Caïman, l'argent sortant encore plus vite.

Le président: Non, je veux parler du fait que s'ils ne peuvent plus se prévaloir de cet abri fiscal, nous allons percevoir davantage d'impôt. Lorsqu'ils se servent de cet abri fiscal pendant un an, comme on peut le voir dans l'exemple qui figure dans ce document, ils y gagnent. Le contribuable a avantage à se prévaloir de l'abri fiscal pendant un an, puis à annuler le régime et à prendre l'argent, plutôt que de ne rien faire et payer l'impôt.

M. Horner: Par contre, le contribuable qui retire cet argent, renonce pour le reste de sa vie au report d'impôt dont il pourrait bénéficier jusqu'à l'âge de 71 ans, de sorte qu'il y a déjà là un élément qui le dissuade de retirer son argent. Le contribuable qui fait une planification fiscale, si l'on excepte celui qui va aux Îles Caïman, va généralement laisser l'argent dans le régime parce que c'est là qu'il bénéficie de plus d'avantages fiscaux.

Le président: Tout dépend des besoins d'argent liquides que l'on a.

M. Horner: Nous sortons là du domaine de la planification fiscale et il me semble qu'en fait. . .

Le président: Ce que je veux faire comprendre, c'est qu'on parle de régime d'épargne-retraite alors que certains contribuables n'ont aucune intention de s'en servir dans ce but. C'est pour eux un mécanisme qui leur permet de reporter le paiement de l'impôt. Autrement dit, ils se contentent de reporter le paiement, d'investir leur argent pendant les six ou sept ans qu'ils se sont fixés, pour ensuite le retirer. Ils ont eu ainsi le bénéfice du report du paiement de l'impôt, c'est ce que je voulais dire.

M. Horner: Il n'en reste pas moins que le contribuable en question a encore plus intérêt à ne pas encaisser son argent et à le laisser là jusqu'à l'âge de retraite.

Le président: Pourquoi? Tout dépend de ses besoins d'argent.

[Text]

Mr. Horner: Because they would have 25 years of deferral instead of 5.

A voice: Income averaging.

The Chairman: Well, I have just pointed out that income averaging comes into it, and you can have all sorts of fun.

Mr. Lynn: No, but if he wants to look after—

The Chairman: You got the guy to give a great sabbatical, you see.

Mr. Lynn: Yes, but what are you going to do with retirement? If he is just on RRSPs—

The Chairman: They do not give a damn about their retirement. Where do you get the idea that people all care about their retirement? You do not have to worry about retirement in this wonderful country. Hell, you have pointed out that if you and your spouse retire at \$12,500, we pay you a pension income that is 117% of your income.

Mr. Lynn: That is more than \$14,000 a year.

The Chairman: My God, is that not wonderful?

Mr. Lynn: If you have been living on \$50,000 a year, would you like to live on \$12,000?

The Chairman: I do not know. It depends on what your cost of living is and it depends where you live.

Mr. Attewell: I would like to ask a question. This is a different topic, but I—

The Chairman: I knew you wanted to change topics. You want to protect him.

Mr. Attewell: On page 17 you are talking about some of the objectives and so on of the overall pension package, the 2% a year, equivalent to a maximum of 70% or so. What legislation would have to be changed? For instance, these are unique examples, but I am thinking of a person like Ian Deans, who was an MPP for several years and has a pension. He was an MP for 12, 14 years, and maybe maximum there. Now he is in the civil service. I was making a calculation. He might be drawing \$20,000 from Queen's Park, \$35,000 as an MP's pension. If he stayed in his current job for 20 years, I am not sure of his age, but he could have a pension of say \$95,000 a year. These are very rough numbers, but compared to the salary being maybe \$110,000, that is a lot more than this 70% limit.

There was some reference earlier to double pensions. The only one I know of is a person like Mr. MacEachen; when he was appointed to the Senate, his MP's pension was deferred. I do not know the mechanics of it, but there was no kind of double pension there. He is serving as a senator and not drawing an MP's pension. But while they are rare, there seem to be some real rich exceptions to what the public call double-dipping or triple-dipping. How could that be prevented, or is it fair to prevent it?

[Translation]

M. Horner: Parce qu'ainsi, il pourrait bénéficier de 25 années de report d'impôt au lieu de 5.

Une voix: L'étalement des revenus.

Le président: En effet, je viens justement de vous dire que l'étalement des revenus intervient aussi et que l'on peut échaffauder toutes sortes de plans.

M. Lynn: Très bien, mais s'il tient à se préoccuper. . .

Le président: Vous comprenez, c'est ainsi qu'on peut se payer une année sabbatique.

M. Lynn: Oui, mais que va faire ce contribuable à la retraite? S'il n'a que le REER. . .

Le président: Il n'a que faire de sa retraite. Qu'est-ce qui vous fait penser que les gens s'intéressent autant à leur retraite? Pourquoi se préoccuper de sa retraite dans ce pays de cocagne. Ne venez-vous pas de nous dire que si, au moment de prendre sa retraite, le contribuable et son conjoint gagnent 12,500\$, le gouvernement doit alors leur verser une pension s'élevant à 117 p. 100 de leur revenu.

M. Lynn: C'est-à-dire plus de 14,000\$ par an.

Le président: Eh bien ma foi, n'est-ce pas merveilleux?

M. Lynn: Est-ce si merveilleux de vivre avec 12,000\$ par an après avoir vécu avec 50,000\$?

Le président: Je ne le sais pas. Tout dépend du coût de la vie pour vous et de l'endroit où vous vivez.

M. Attewell: J'aimerais vous poser une question. Je change de sujet mais. . .

Le président: Je savais que vous vouliez changer de sujet. Vous cherchez à le protéger.

M. Attewell: À la page 17, vous évoquez un certain nombre des objectifs de la réforme globale des pensions, les 2 p. 100 par an, équivalant à un maximum de 70 p. 100 environ. Quelles sont les lois qui vont être changées? C'est un cas particulier, mais je pense par exemple à des gens comme Ian Deans, qui a été député provincial pendant plusieurs années et qui a droit à une pension. Il a été député fédéral pendant 12 ou 14 ans et il est possible qu'il ait droit là au maximum. Aujourd'hui il est fonctionnaire. J'ai fait le calcul. Il est possible qu'il retire 20,000\$ de sa pension provinciale et 35,000\$ de sa pension de député fédéral. S'il reste 20 ans dans son poste actuel, je ne sais quel est son âge, mais il pourrait toucher une retraite s'élevant à quelque 95,000\$ par an. Ce sont là des chiffres très approximatifs, mais si on les compare à un salaire qui peut tourner autour de 110,000\$, cette limite de 70 p. 100 est largement dépassée.

On a mentionné précédemment le cas des doubles retraites. L'unique cas que je connaisse est celui de M. MacEachen par exemple; lorsqu'il a été nommé au Sénat, sa retraite de député a été différée. Je ne sais pas selon quel mécanisme, mais il n'est aucunement question ici de double retraite. Il occupe les fonctions de sénateur et il ne touche pas de retraite de député. Bien qu'ils soient rares, il semble qu'il y ait quelques cumulards, comme on les appelle dans le public, et que certains soient assez fortunés

[Texte]

[Traduction]

pour toucher deux ou trois retraites. Comment faire pour éviter cette situation et est-il équitable de l'éviter?

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Mr. Horner: If all the pensions are limited to 2% for each year of service and have a fairly standard level of age at which they can first come into pay, then the problem really does not exist. It exists now only in the cases where a person can get either a pension that accrues faster than 2% a year, which is true of the example you gave, or can get a full pension starting at a very young age when they still have half their career to go.

Mr. Attewell: No one working in the private sector, who kept changing jobs and who had a portable pension, would ever come near that level of field.

Mr. Lynn: No. As we have said, this is concerned with how much tax assistance you are going to get while building up your pension benefits. You could have a very generous pension plan, something along the lines you are talking of, and that is fine. This has nothing to do with how much pension you are going to get. This has to do with how much of it will be tax-assisted while it is being built up. This is what we are putting the limits on.

Mr. Attewell: You do not see anything wrong with the example I gave.

Mr. Lynn: No. If a company, whether it is the government or a private company working with its employees, is able and is prepared to give them huge, rich pensions like that, it is their business. It is not the government's business. The government wants to make sure all of it is not done through a tax-assisted basis. There is a limit on the amount the government contributes to it. That is what this legislation is about.

Mr. Attewell: Thank you. Just before we broke, I was asking for a breakdown of the schedule on page 13 showing the cost of the increase in the RRSP limits. Would a figure like that be readily available?

Mr. Horner: The portion of the cost that is associated with the increase from \$5,500 to \$7,500.

Mr. Attewell: By 1994, do you not get up to the \$15,500?

Mr. Horner: That is correct. So the cost of \$270 million is the cost of going from \$5,500 to the first-year limits of \$11,500 for pension plan benefits and \$10,500 for the RRSP limits. Each year both those limits go up by another \$1,000 until 1995.

Mr. Attewell: Are those amounts totally attributable to the increase in RRSPs?

M. Horner: Si on limite à 2 p. 100 la part des salaires ouvrant droit à pension pour chaque année de service et si on fixe plus ou moins l'âge normal à partir duquel les retraites peuvent être payées, il n'y a pas vraiment de problème. Le problème se pose uniquement si la personne en cause obtient plus de 2 p. 100 de crédits de retraite par an, ce qui correspond au cas que vous venez de citer, ou si elle touche une retraite pleine et entière très jeune, alors qu'elle est encore en mesure de se lancer dans une nouvelle carrière.

M. Attewell: Aucun travailleur du secteur privé, qui change constamment d'emploi et qui a un régime de retraite transférable, ne se trouvera dans une telle situation.

M. Lynn: En effet. Comme nous venons de vous le dire, ce projet porte sur le montant de l'aide fiscale dont vous allez bénéficier tout en vous constituant un régime de retraite. Si vous avez un régime de retraite très généreux, dans le genre de ce que vous venez d'exposer, tant mieux pour vous. Notre projet n'a rien à voir avec le montant de la retraite que vous allez toucher. Il porte sur le montant de l'aide fiscale qui vous est consentie pendant que vous vous constituez une retraite. C'est à cela que nous fixons des limites.

M. Attewell: Vous ne voyez rien de critiquable dans les exemples que je viens de vous donner.

M. Lynn: Non. Si une entreprise, que ce soit le gouvernement ou une société privée, est disposée à accorder à ses employés des pensions aussi généreuses, et si elle est en mesure de le faire, ça la regarde. Le gouvernement n'a pas à intervenir. Par contre, le gouvernement veut s'assurer que ce pactole n'est pas entièrement obtenu grâce à l'aide fiscale. Il y a une limite en ce qui a trait au montant que verse le gouvernement à ce titre. C'est là le but de la législation.

M. Attewell: Je vous remercie. Avant que l'on se sépare, j'ai demandé que l'on me fournisse la répartition des coûts dus au relèvement du plafond des REER, coûts qui figurent dans le tableau de la page 13. Peut-on trouver quelque part cette répartition?

M. Horner: La part du coût liée au relèvement du plafond de 5,500\$ à 7,500\$.

M. Attewell: Mais on ne va pas atteindre 15,500\$ en 1994?

M. Horner: C'est exact. Le coût de 270 millions de dollars correspond donc au passage dans un premier temps d'un plafond de 5,500\$ à un plafond de 11,500\$ pour les prestations des régimes de pension, et à 10,500\$ pour les REER. Chaque année, par la suite, ces plafonds seront relevés de 1,000\$ supplémentaires jusqu'en 1995.

M. Attewell: Ces sommes sont-elles entièrement attribuables au relèvement des plafonds des REER?

[Text]

Mr. Horner: No, it is a net cost of the whole change in the system. Apart from these measures that are separately costed, which are offsetting revenue gains from tightening the rules, it is estimated, using the RRSPs, as the residual. It is not only looking at the people who benefit from the limit, but also, for example, at an executive who has been getting a \$3,500 RRSP limit because he was in a non-contributory plan. Under the new system, his limit will be \$600. That decline is represented in this. This is a net cost figure.

Mr. Attewell: I guess I was trying to understand or get a handle on the forgone tax revenue as a result of the increase in the RRSP levels.

Mr. Horner: It is not just an increase in the example I gave. For a pension plan member, the RRSP limit may go up or may go down under the new limits. It is not an across-the-board increase for everybody. These numbers are obtained by doing a simulation on a sample of taxpayers.

Mr. Attewell: Cannot we not get a cost on this?

The Chairman: The cost is in the net.

Mr. Attewell: Attributed to the increase? Some of my colleagues on the other side of the House are going to be talking against the limits.

The Chairman: He has it right here, Bill.

Mr. Attewell: Is that the net amount?

Mr. Horner: That is right.

• 2115

The Chairman: The gain to the treasury is \$85 million in the first year, \$5 million in the second year, \$5 million in the third year, \$30 million in the fourth year, \$85 million in the fifth year.

Mr. Attewell: I was not meaning the net number, I was meaning the forgone costs of the increase eventually reaching \$15,500 for RRSPs going from—

Mr. Horner: If you look at the number of \$800,000, there is \$15,500. That is a fiscal year number. But there are limits of \$15,500 in 1995 there. What we have done is we have compared one set of limits which have \$15,500 for somebody earning \$86,000 or whenever you hit that level under the proposal, but also under the proposal \$600 limits for the person who is in a 2% generous pension plan with the same sort of earnings instead of \$3,500.

[Translation]

M. Horner: Non, c'est le coût net des changements globaux apportés au système. En contrepartie de ces mesures dont le coût est établi séparément, il y a un surcroît de recettes qui provient du resserrement des règles, qui, selon les estimations, va toucher par ricochet les REER. Il y a non seulement les gens qui vont bénéficier d'un relèvement des plafonds, mais aussi par exemple les cadres qui bénéficiaient jusqu'alors du plafond de 3,500\$ sur leur REER parce qu'ils disposaient d'un régime non contributif. En vertu des nouvelles règles, leur plafond ne sera plus que de 600\$. Cette baisse est ici prise en compte. Il s'agit d'un calcul des coûts nets.

M. Attewell: Je voulais simplement avoir une idée du montant des recettes fiscales auxquelles renonce l'État du fait du relèvement des plafonds des REER.

M. Horner: Il n'y a pas simplement des relèvements dans l'exemple que j'ai donné. Pour un bénéficiaire d'un régime de retraite, le plafond du REER pourra augmenter, mais aussi diminuer en fonction des nouvelles règles. Il n'y a pas de relèvement pour tout le monde. Ces chiffres sont tirés d'une simulation faite à partir d'un échantillonnage de contribuables.

M. Attewell: N'est-il pas possible d'en obtenir le coût?

Le président: Le coût correspond aux chiffres nets.

M. Attewell: Attribuables au relèvement des plafonds? Un certain nombre de mes collègues d'en face vont s'opposer à ces plafonds.

Le président: Il a tout ça ici, Bill.

M. Attewell: C'est le montant net?

M. Horner: En effet.

Le président: Le gain pour le Trésor public est de 85 millions de dollars la première année, de 5 millions de dollars la deuxième année, de 5 millions de dollars la troisième année, de 30 millions de dollars la quatrième année, et de 85 millions de dollars la cinquième année.

M. Attewell: Je ne parle pas des chiffres nets, je parle des rentrées d'argent auxquelles renonce le gouvernement du fait du relèvement des plafonds, qui vont finalement atteindre 15,500\$ pour les REER alors qu'on était au départ. . .

M. Horner: Prenez le montant de 800,000\$, il y a là un plafond de 15,500\$. Le chiffre correspond à une année financière. Il y a toutefois des plafonds de 15,500\$ pour 1995 en ce qui concerne ces chiffres. Ce que nous avons fait, c'est comparer une série de plafonds qui vont jusqu'à 15,500\$ pour quelqu'un qui gagne quelque chose comme 86,000\$ ou le montant correspondant à ce plafond en vertu de ce projet, mais aussi en tenant compte de la proposition qui fixe à 600\$ et non plus à 3,500\$ le plafond pour une personne qui bénéficie d'un régime de pension généreux de 2 p. 100 et qui gagne le même type de revenu.

[Texte]

If you continued the old system where you have \$3,500 for people in non-contributory pension plans and \$7,500 for people not in pension plans and the whole features of the current system and then compared the revenue costs with the proposed system, which has higher limits for somebody who is not in a pension plan and benefits from the increased dollar limits and lower limits for some people who are in generous pension plans which would have a high PA level but now have a full \$3,500, say, all those RRSP limit changes are involved in that simulation. You simulate one set of limits—the current ones and another set of limits, the new ones—and compare the two and then you really look at not just the changes in contributions but the changes multiplied by the marginal tax rates to find out how much the extra tax cost is.

Mr. Lynn: This is bringing those who are now getting above the limits down and those who are below bringing them up, but through a model which simulates the extent to which they will take advantage of it. It is a net figure of some people who will not have as much room and others who will have more room.

Mr. Parker: Just to follow up on that, if I might, Mr. Chairman, because I think he has brought up an exceptional case here, and I am certainly not going to defend that. But we could look in a much broader sense at our military and at our RCMP and some of those areas where 20 to 25 years is the maximum and they get their full pension service and then use the system again, obtaining their pension at an early age and using the RRSPs. If we are talking about fairness within the system, I cannot see where the fairness is there, because many people have to go at least 35 years to obtain the maximum. I just want to know how you have adjusted that.

Mr. Horner: One step is preventing the roll-over of the early retirement pension.

Mr. Parker: Right. I can understand that, but we still have a system here where we are saying that 35 years is considered the norm, and yet we have a system in place where a privileged group is being able to receive their maximum pension after 20 to 25 years service. I think it is 25 for the RCMP and the military, although I am not sure. There is a large contingent out there, and while I realize they are serving our country and so on, the fact remains there is a double standard here.

Mr. Horner: Somebody who retired in the military would not get a 70% pension after say 20 years. If they

[Traduction]

Si l'on avait maintenu l'ancien système dans lequel le plafond était de 3,500\$ pour les gens qui bénéficiaient de régimes de pension non contributifs et de 7,500\$ pour ceux qui avaient des régimes contributifs en gardant toutes les caractéristiques du système actuel, les chiffres obtenus peuvent être comparés à ceux du système proposé, qui prévoit des plafonds plus élevés pour les gens qui n'ont pas de régime de pension et qui pourront ainsi tirer parti d'un relèvement des montants des plafonds, et des plafonds moins élevés pour un certain nombre de gens qui bénéficient d'un régime de pension généreux et qui auront alors un FE plus élevé, alors qu'ils peuvent prétendre à l'heure actuelle à l'intégralité du plafond de 3,500\$. On obtient donc à la suite de cette simulation les pertes de recettes nettes qu'entraînent tous ces changements de plafonds des REER. On compare les deux séries de plafonds, l'ancienne série et la série actuelle, et l'on examine en fait non seulement les changements de répartition, mais les changements combinés aux taux d'imposition marginaux, ce qui permet d'en déduire le coût supplémentaire pour le fisc.

M. Lynn: Cela revient à abaisser les plafonds trop élevés et à relever les autres, mais selon un modèle qui simule jusqu'à quel point chacun tire parti du système. C'est un chiffre net qui rend compte à la fois de la situation des gens qui auront moins de latitude dans le cadre du nouveau système et de celle des gens qui en auront plus.

M. Parker: J'aimerais poursuivre sur ce point, si vous me le permettez, monsieur le président, même si je pense que l'on vient d'évoquer ici un cas tout à fait exceptionnel, que je n'ai certainement pas l'intention de défendre. Il n'en reste pas moins que l'on peut prendre le cas plus général de nos militaires et de la GRC, et de tous les secteurs dans lequel on fait au maximum 20 ou 25 années de service pour obtenir une retraite complète et ensuite profiter à nouveau du système en prenant sa retraite très tôt et en se servant du REER. On parle d'équité, mais je ne vois pas où est l'équité dans ce cas étant donné que, pour la majorité des gens, il est nécessaire de travailler pendant 35 ans pour obtenir le maximum. J'aimerais savoir ce que vous avez fait à ce sujet.

M. Horner: L'une des démarches a consisté à empêcher que les crédits de retraite anticipée puissent être reconduits dans un autre régime.

M. Parker: Très bien, je comprends cela. Il n'en reste pas moins que nous avons ici un système dans lequel la norme est de faire 35 ans de service pour obtenir le maximum alors qu'un groupe privilégié touche le maximum de leur retraite après 20 ou 25 ans de service. Il me semble que c'est 25 ans pour la GRC et pour l'armée, mais je n'en suis pas sûr. Ils sont nombreux à être dans ce cas et, même si je reconnais bien sûr qu'il servent leur patrie, il n'en reste pas moins qu'il y a là deux poids et deux mesures.

M. Horner: Une personne retraitée de l'armée ne va pas toucher 70 p. 100 de son salaire à la retraite au bout

[Text]

worked from age 20 to age 40 they could retire with a full 40% pension. Actually, I think there is a CPP offset with their pension. It is not the most generous possible pension. So it is perhaps not as extreme. It is a generous provision to provide that, but the reason it was accommodated was that they are forced to retire, and there is a special accommodation made in the regulations for a broader class of people, which are defined in the regulations as public safety employees, and that is police officers, fire officers, air traffic controllers, pilots, corrections officers, I believe, who are permitted to get an actuarially unreduced pension after 25 years of service or at age 55 rather than after 30 years of service or age 60, which is the general rule.

• 2120

So there has been an attempt to limit the generosity of pensions for people who retire early to reasonable levels while recognizing that some people have to retire early and in some cases when people are forced to retire early they do not have much option to go back to work. So we have tried to draw a reasonable compromise.

Mr. Pickard: You have probably touched on this point too. It is just another point because Bill brought up the fact of double-dipping and Don brought up something such that I see a scenario that could develop here. A person is working in a capacity in some area where he has a pension plan to phase into. He runs for office, is elected, pays into that pension plan, decides at the end of four years he is going to withdraw his money from that pension plan, goes back and pays into the previous pension plan, picks up past credits, then decides he is going to run for office again, picks up past credits there, and carries on. He is double-dipping.

Mr. Horner: The proposed limits have a control over buying the same year of service in two different schemes. We do accommodate transfers of service between plans, but you cannot double up—you cannot keep the credits for 1993 and also buy them again under the next employer.

Mr. Pickard: But what I am saying is you drop them. You buy past service and you go ahead into another area, drop them, and buy past service back again. An MP, for instance, as Don suggested: let us say he was working in a pension plan. After being defeated he decided to go back to that pension plan and buy past service in the pension plan he was in. Then, after buying that past credit he has, whatever number of years he has in the pension plan, he decides to run for Parliament again, and is elected again.

[Translation]

de 20 ans. Si elle a travaillé, par exemple, de 20 à 40 ans, elle va toucher une retraite complète de 40 p. 100. Je pense enfin qu'il existe une mesure de compensation entre leur retraite et leur PC. Ce n'est pas là le type de retraite le plus généreux que l'on puisse concevoir et la situation n'est pas si extrême. Cette disposition est certes généreuse, mais elle s'explique par le fait que ces gens sont obligés de prendre leur retraite anticipée, et il y a des dispositions spéciales en ce sens pour toute une catégorie de gens qui sont définis dans les règlements comme des employés préposés à la sécurité publique, soit, en l'occurrence, les agents de police, les pompiers, les contrôleurs de la circulation aérienne, les pilotes, les agents correctionnels, si je me souviens bien, qui sont autorisés à toucher une retraite sans pénalité actuarielle au bout de 25 ans de service ou à l'âge de 55 ans plutôt qu'au bout de 30 ans de service ou à l'âge de 60 ans, qui est la règle générale.

On a donc cherché à limiter à un niveau raisonnable le montant des pensions pour les gens qui prennent une retraite anticipée tout en tenant compte du fait que certaines personnes doivent prendre leur retraite tôt et que dans certains cas elles sont obligées de le faire et qu'elles n'ont pas la possibilité de retourner au travail. Nous avons donc cherché à faire un compromis raisonnable.

M. Pickard: Il y a aussi une autre question que vous avez probablement abordée. Ce qui m'amène à en parler, c'est que Bill a évoqué le cas des cumuls et qu'après avoir entendu Don, je peux imaginer un certain type de scénario. Prenons le cas d'une personne qui occupe un poste qui lui permet de réintégrer son régime de pension. Elle se porte candidate à une élection, elle est élue, verse ses cotisations à son régime de pension, décide au bout de quatre ans de retirer son argent du régime, revient verser ses cotisations dans le régime de pension antérieur, récupère les crédits perdus, puis décide de se porter à nouveau candidate, récupère les crédits antérieurs, et ainsi de suite. Elle fait alors du cumul.

M. Horner: Selon les plafonds proposés, on ne peut acheter les crédits correspondant à la même annuité dans deux régimes différents. Il est possible de transférer les années de service entre deux régimes, mais on ne peut cumuler; on ne peut, par exemple, conserver ces crédits pour 1993 et les racheter dans le régime correspondant à un autre employeur.

M. Pickard: Dans l'exemple que je vous donne, vous les abandonnez. Vous achetez les années de service passées et vous passez dans un autre domaine, vous les abandonnez, puis vous les rachetez. Prenons le cas d'un député, par exemple, celui qu'a cité Don. Imaginons qu'il travaillait dans un domaine où il disposait d'un régime de pension. Après avoir perdu une élection, il décide de réintégrer son régime de pension et rachète ses annuités passées. Après avoir racheté ses annuités, quel que soit le nombre d'années de service pendant lequel il a cotisé à ce

[Texte]

The Chairman: Let me tell you, it is terrible.

Mr. Pickard: He buys his past Member of Parliament pension—

The Chairman: I have done this.

Mr. Pickard: —back and carries on in contributions.

The Chairman: I had to pay tax on getting it out. They took the tax off. Then of course I had to pay it back in.

Mr. Pickard: But then you bought it back.

The Chairman: Then I ended up with tax-paid money going back in again.

Mr. Pickard: But I am saying if you went back to another job, where you did buy past service again from your time in here, you could have double-run that system pretty easily.

Mr. Horner: It is not possible under the proposed limits. If you have, for example, been a Member of Parliament—

Mr. Pickard: Because your 18% would control it?

Mr. Horner: Because this PA works for past service credits too. If you worked for one employer, and say when you leave you cash out and take the money you get and put it in an RRSP, if you then go to another employer and say you would like to buy those years when you were with that first employer, you will not be able to do that unless you take sufficient money out of your RRSP and contribute it to buy those benefits with which you square the system. It is like a bank balance, and you are not allowed to go negative; whereas under the current rules in some cases going negative is like doubling-up. It is using room twice. You are not allowed to do that.

Mr. Pickard: You are not allowed to repay again into another system.

Mr. Horner: If you take the money out of a tax-sheltered vehicle and put it into another one, that will generally be accommodated. But if you try to keep the money you have cashed out of one plan, say in an RRSP, and meanwhile get past service years in another plan for the same years you have already cashed out and put in an RRSP, you—

Mr. Pickard: That loophole presently exists and you have stopped it?

Mr. Horner: That is right. And we really had to move to a system that looked at it on a multi-year basis in order to control that kind of thing.

[Traduction]

régime de pension, il décide de se porter à nouveau candidat à une élection fédérale et il est de nouveau élu.

Le président: Laissez-moi vous dire que c'est terrible.

M. Pickard: Il rachète ses crédits antérieurs ouvrant droit à sa pension de député. . .

Le président: C'est ce que j'ai fait.

M. Pickard: Et continue à verser par la suite ses cotisations.

Le président: Il m'a fallu payer l'impôt lorsque j'ai quitté le régime. On m'a prélevé le montant de l'impôt. Ensuite, bien entendu, j'ai dû rembourser.

M. Pickard: Mais ensuite, vous avez racheté vos crédits.

Le président: J'ai finalement remis de l'argent sur lequel de l'impôt avait déjà été payé.

M. Pickard: Ce que je veux vous faire comprendre, toutefois, c'est que si vous reprenez un emploi, si vous rachetez à nouveau vos annuités passées en tant député, vous pourriez facilement tourner le système et toucher des deux côtés.

M. Horner: C'est impossible avec les nouveaux plafonds qui sont proposés. Si vous avez été par exemple député. . .

M. Pickard: Parce que vos 18 p. 100 vont l'empêcher?

M. Horner: Parce le FE opère aussi sur les crédits correspondant aux années de service antérieures. Imaginons, par exemple, que vous ayez travaillé pour un employeur et touché l'argent de votre fonds de retraite en le quittant pour le mettre dans un REER; à partir du moment où vous êtes engagé par un autre employeur et où vous lui dites que vous aimeriez racheter les crédits correspondant aux années passées avec l'employeur précédent, vous ne pourrez pas le faire à moins de sortir suffisamment d'argent de votre REER et de le consacrer au rachat de ces crédits qui vous permettent de faire le rattrapage. C'est comme un solde bancaire, vous ne pouvez pas tomber au-dessous de zéro. Alors que les règles actuelles, les soldes négatifs correspondent dans certains cas à un cumul. Ce serait bénéficier deux fois de la même possibilité; ce n'est pas possible.

M. Pickard: On n'est donc pas autorisé à cotiser à nouveau dans un autre régime.

M. Horner: Si vous sortez de l'argent d'un abri fiscal pour le mettre dans un autre, la chose est généralement possible. Par contre, si vous cherchez à conserver l'argent que vous avez retiré d'un régime comme le REER tout en cherchant par ailleurs à récupérer des annuités passées dans un autre régime et correspondant aux mêmes années que celles que vous avez déjà touchées et reversées dans un REER, vous. . .

M. Pickard: Cette échappatoire existe à l'heure actuelle, mais vous l'avez supprimée?

M. Horner: C'est bien cela. En fait, il nous a fallu passer à un système prenant en compte plusieurs années pour contrôler ce genre de chose.

[Text]

[Translation]

• 2125

With regard to the lock-in again, there is one other issue that I think is quite important, and we just did not have the time. If a penalty tax was applied on an early withdrawal, there also needs to be a set of situations that you would exempt, and you create an administrative problem.

At the time we were looking at the question of lock-in, it was in the middle of the early 1980s recession and the department was getting all kinds of letters from people who desperately wanted to get at their pension moneys because they were going to lose their house since they could not make their mortgage payments or they were going to lose their small business. So there were very real costs. It was not a question of tax planning; it was a question of who cares about my retirement if I am going to lose my house? That is better for me.

So there are two implications of that. One is that the lock-in implies a paternalistic view that the state knows better than the individual whether or not he should keep money for retirement or use it for another investment. The second one is that it seemed to us that politically you would have to have what could end up being quite a complicated mechanism to say, if you are disabled, you do not have to pay that special tax; if you are in financial hardship, however that would end up being defined, you do not have to pay that special tax.

The Chairman: The answer is that we are using very substantial deferrals of taxation, very substantial benefits from one citizen to another. A citizen who takes part in these plans is getting the right to have income or eventual benefits from income without paying income tax for a long period of time or deferring tax—in other words, getting a very substantial assistance from the state in one form or another.

Surely to goodness that citizen who decides to use what is sold on the basis of retirement to pay his bills, to pay his financial problems, to go on a holiday, to gamble in Las Vegas, or to have a sabbatical or whatever, ought to pay back to the state the forgone taxes the state would have earned had he not had that benefit. It just seems sensible. To leave that outstanding is unfair to those people who pay their full burden of tax. It is unfair, particularly when we are handling at 12% or better a deficit that is choking the hell out of us and some people are getting substantial tax assistance.

Mr. Pickard: I really do not know why you went to 18% rather than the 20% that was there, because it negatively affects some middle-income people. I do not know if you have explained that.

En ce qui concerne à nouveau le blocage des fonds, il me semble qu'il y a une autre question très importante et que nous n'avons pas eu le temps de traiter. À partir du moment où on applique une pénalité en cas de retraite anticipée, il faut par ailleurs prévoir des exemptions dans certains cas, ce qui complique l'administration du régime.

On s'est penché sur la question du blocage des fonds en plein milieu de la récession du début des années 1980, alors que le ministère recevait des centaines de lettres de gens qui souhaitaient absolument retirer leur argent de leur régime de retraite parce qu'ils étaient sur le point de perdre leur maison faute de pouvoir faire leur versements hypothécaires, ou parce qu'ils étaient sur le point de perdre leur petite entreprise. Il y avait donc là des coûts très réels. Ce n'était pas une simple affaire de planification fiscale; ces gens se demandaient à quoi cela servait de penser à la retraite lorsqu'on était en train de perdre sa maison? Ils voulaient pouvoir choisir la meilleure solution.

Il y a donc deux dimensions au problème. La première consiste à dire qu'un blocage des fonds relève d'un comportement paternaliste de l'État, qui croit mieux savoir ce qui est bon pour ses administrés et pouvoir décider s'il leur faut conserver cet argent pour leur retraite ou l'utiliser à d'autres fins. La deuxième vient du fait qu'il nous a semblé que d'un point de vue politique, on allait se retrouver avec un mécanisme assez complexe dans lequel, par exemple, un handicapé serait exonéré du paiement de cet impôt spécial, de même qu'une personne en difficulté financière, en fonction des critères retenus pour définir cette situation.

Le président: Le résultat, c'est que nous accordons des reports d'impôt considérables, qui varient énormément. Les gens qui bénéficient de ces régimes obtiennent le droit d'obtenir un revenu et de profiter ensuite de leurs investissements sans payer l'impôt sur le revenu sur une même période ou de reporter le paiement de l'impôt—autrement dit, ils bénéficient d'une aide considérable de l'État sous une forme ou sous une autre.

Quand même, il me semble qu'un contribuable qui décide de liquider son régime de retraite pour payer ses factures, résoudre ses difficultés financières, partir en vacances, aller jouer à Las Vegas ou prendre une année sabbatique ou quelque chose de ce genre, devrait rembourser à l'État l'impôt auquel ce dernier a renoncé et qu'il aurait perçu en l'absence de cet abri fiscal. Ça me paraît naturel. Il est injuste pour les bons contribuables, qui s'acquittent de l'intégralité des impôts qu'ils doivent, de laisser les choses en l'état. C'est injuste, surtout quand on sait qu'on doit financer à 12 p. 100 ou plus un déficit qui nous étrangle tous alors que certaines gens bénéficient d'une aide fiscale substantielle.

M. Pickard: Je ne comprends pas vraiment pourquoi vous êtes passé à 18 p. 100 et non pas à 20 p. 100, contrairement à ce qui était prévu jusqu'à lors, parce que certaines catégories de revenus moyens vont en souffrir. Je ne sais pas si vous nous avez donné une explication.

[Texte]

The Chairman: Yes, he has explained that.

Mr. Pickard: I was not here. Maybe somebody could give me that explanation.

The Chairman: The carry-forward explains that largely. The carry-forward of unused contributions covers that.

Mr. Lynn: A contribution of 18% over a period of say 30 to 35 years would enable you to finance a pension of 60% to 70% of your earnings, and that is the generally accepted norm. The 20% did not have much rationale to it, but the 18% is based on the model we talked about earlier. If you did that, then you could have a good healthy pension of about 60% to 70%.

Mr. Pickard: I understand that comment from the minister when he did his presentation. However, some people are visualizing a loss of 2% in their ability to pay, particularly at the lower levels where it goes above the \$7,500. Then they are certainly getting the benefit out of this presentation. But where it is below in the say \$35,000 to \$43,000 income, they are perceiving a loss of 2% ability to put money into pension plans. Whether they will or will not, that is the perception.

Mr. Lynn: Yes, but at the 18%, and particularly at the lower-income end where they get more advantage, as we discussed earlier, from the existing public plans—the OAS, perhaps the GIS, if they are low enough, and the CPP—they will still be able to have sufficient money in retirement to give that good proportion of their pre-retirement earnings.

• 2130

Mr. Pickard: And you can make that judgment. However, they perceive it as losing x amount of dollars in being able to protect or shelter, whatever the term.

Mr. Lynn: Providing they are contributing up to the maximum now—

An hon. member: Every year.

Mr. Pickard: That is another question.

Mr. Horner: After a year or two they will not have that perception because the fact is that people who contribute do not contribute year after year, except those maybe at the very highest income level, so you only have to miss one contribution to have effectively a 36% limit the next year. As soon as somebody has missed a contribution, the carry-forward will give them enough benefit that they will perceive the limits as more generous than the old limits.

[Traduction]

Le président: Oui, le témoin nous l'a expliqué.

M. Pickard: J'étais absent. Quelqu'un peut-il me fournir cette explication.

Le président: Cela s'explique en grande partie par le mécanisme de report. Le mécanisme de report des cotisations non utilisées l'explique.

M. Lynn: Une cotisation de 18 p. 100 sur une période de 30 ou 35 ans vous permet de financer une pension équivalant à 60 ou à 70 p. 100 de vos gains, ce qui correspond à la norme généralement reconnue. Les 20 p. 100 n'ont pas vraiment de raison d'être, mais les 18 p. 100 correspondent au modèle dont nous venons de parler. Si vous versez ce pourcentage, vous aurez une bonne retraite équivalant à quelque chose comme 60 ou 70 p. 100 de votre salaire.

M. Pickard: J'ai compris la démonstration du ministre lorsqu'il a fait son exposé. Il n'en reste pas moins que certaines personnes entrevoient une perte de 2 p. 100 de leur capacité de payer, surtout dans les tranches inférieures, lorsqu'on dépasse le seuil de 7,500\$. Elles ne pourront certainement pas profiter de ce projet. Mais lorsqu'on tombe au-dessous d'un revenu, disons, de 35,000 à 43,000\$, elles entrevoient une diminution de 2 p. 100 des paiements qu'elles pourront faire dans les régimes de pension. Que cette prévision se réalise ou non, c'est là leur perception de la situation.

M. Lynn: Oui, mais avec 8 p. 100, et particulièrement dans les tranches de revenus inférieures où les gens pourront tirer davantage parti, comme nous l'avons vu précédemment, des régimes d'assistance publique existants: la sécurité la vieillesse, éventuellement le SRG, s'il ne dépasse pas un certain plafond, et le RPC, ils auront encore suffisamment d'argent au moment de la retraite pour donner ce pourcentage approprié de leurs gains avant la retraite.

M. Pickard: Et vous êtes en mesure de faire ce jugement. De leur côté, ces gens ont l'impression qu'ils perdent le montant correspondant qu'ils ne sont pas en mesure de protéger ou de mettre à l'abri de l'impôt, quel que ce soit le terme que vous vous employez.

M. Lynn: À condition de cotiser au maximum à l'heure actuelle. . .

Une voix: Chaque année.

M. Pickard: C'est une autre question.

M. Horner: Au bout d'un an ou deux, ils n'auront plus cette impression parce que les gens qui cotisent ne le font pas chaque année, sauf peut-être ceux qui ont les revenus les plus élevés, de sorte qu'il suffit de sauter une seule cotisation pour avoir en fait une limite de 36 p. 100 l'année suivante. À partir du moment où un contribuable sautera une cotisation, le mécanisme de report lui conférera suffisamment d'avantages pour qu'il perçoive les nouveaux plafonds comme étant plus généreux que les anciens.

[Text]

Mr. Pickard: As long as they do not pay an amount for that year.

Mr. Dorin: Nobody has enough cash left year after year to make the maximum contribution, so it is a perception—you are right about the perception—but in reality—

Mrs. Marleau (Sudbury): It is not up to us to judge.

The Chairman: Sure it is.

May I ask two things? This scheme you have is being opposed by a number of teachers' organizations that say that what you have is going to restrict seriously the pensions they are able to offer their members, certainly now and in the future. Have you been dealing with them, and what have you to say to them?

Mr. Lynn: Mr. Chairman, Keith knows them all on a first-name basis.

The Chairman: Hear, hear.

Mr. Lynn: He has met with them all.

The Chairman: We are talking about the Manitoba Teachers Federation.

Mr. Horner: And Newfoundland.

The Chairman: And Newfoundland, okay.

Mr. Horner: The key point is that the measures restrict what can be provided on a tax-assisted basis.

The Chairman: That is right.

Mr. Horner: And it will still be possible for the employer to continue with promises for a given level of pension benefits so long as the benefits over and above the limits are provided through either an unfunded basis or a funded RCA basis that does not receive tax assistance.

It happens that both those provincial teachers' plans are largely unfunded now, so they could make that change in the arrangements with really very little interruption with the way they are going. They are not fully using the tax assistance limits in the way that a plan does that is fully funded.

The Chairman: I see.

Mr. Lynn: It relates to the distinction between the limits on the tax assistance and the level of the limits on the pension, and this has nothing to do with limiting the pension.

As Keith says, those are largely now paid on an unfunded basis. With the scheme they will get tax assistance up to the limits, but they could pay the remainder again—continue to pay it on an unfunded basis and they will get the same pensions and the teachers will make the same contributions—

[Translation]

M. Pickard: Dans la mesure où il ne verse pas un montant correspondant à cette année-là.

M. Dorin: Personne n'a suffisamment de liquidités, chaque année, pour cotiser au maximum, de sorte que ce n'est là qu'une perception. Vous avez raison au sujet de cette perception, mais en réalité. . .

Mme Marleau (Sudbury): Il ne nous appartient pas de juger.

Le président: Oui, il nous appartient de juger.

J'aurais deux questions à poser. Le mécanisme que vous proposez est contesté par un certain nombre d'organisations d'enseignants qui affirment que vous allez sérieusement restreindre les pensions qu'elles seront en mesure d'offrir à leurs membres, dans l'immédiat et plus tard. Avez-vous eu des discussions avec ces organisations et que leur avez-vous dit?

M. Lynn: Monsieur le président, Keith les connaît toutes par leur prénom.

Le président: Bravo.

M. Lynn: Il les a toutes rencontrées.

Le président: Nous parlons de la Fédération des enseignants du Manitoba.

M. Horner: Et de Terre-Neuve.

Le président: Et de Terre-Neuve, très bien.

M. Horner: Le problème fondamental, c'est que ces mesures limitent les montants d'aide fiscale qui peuvent être fournis.

Le président: C'est exact.

M. Horner: Et l'employeur conservera la possibilité de maintenir les prestations de retraite promises au même niveau dans la mesure où les prestations qui dépassent les plafonds prévus sont accordées sans aucun financement ou dans le cadre d'une convention de retraite financée qui ne bénéficie d'aucune aide fiscale.

Il se trouve à l'heure actuelle que ces régimes provinciaux s'appliquant aux enseignants sont en grande partie financés, de sorte qu'il sera possible d'apporter les modifications qui s'imposent sans bouleverser le fonctionnement actuel. Ces régimes ne tirent pas parti de l'intégralité de l'aide fiscale plafonnée, contrairement à ce qui se passe pour un régime pleinement financé.

Le président: Je comprends.

M. Lynn: Il s'agit de faire la distinction entre le plafonnement de l'aide fiscale et le plafonnement des pensions, ce projet n'ayant rien à voir avec le plafonnement des pensions.

Comme l'a déclaré Keith, à l'heure actuelle, les paiements sont en grande partie non financés. Avec le nouveau système, l'aide fiscale se limitera aux plafonds prévus, mais il sera toujours possible de verser le complément, de continuer à le verser sans financement, les enseignants pouvant toucher le même montant de pension en versant les mêmes cotisations. . .

[Texte]

The Chairman: And they do not have to even pay any tax on that to protect that. They just make a promise to their people and pay them the payments.

Mr. Lynn: Yes.

The Chairman: And since they are public bodies they just pay it.

Mr. Lynn: Yes.

The Chairman: The age of 71 is the current age for forcing RRSPs to be cashed or turned into RRIFs and so on. Have you given any thought to extending that age, and extending the age of 90 to 100, the magic age of 90 to 100?

Mr. Horner: No to the former; yes to the latter.

The Chairman: On the latter—

Mr. Horner: Except that if we extended it on our current thinking, which is just at a sort of a kicking-around-proposals stage—

The Chairman: In view of the fact that pretty well everybody now in the work force has an average life expectancy of something in the neighbourhood of 80, 82, or something like that, you know 90 is not an old age any more. I was wondering if we could move that to 100. Is it possible under this bill to do that?

Mr. Horner: It may be a bigger drafting job, because there are some other proposals that have been made by the Canadian Association of Pension Supervisory Associations about letting pension moneys into RRIFs, with sort of RRIF-annuity combinations. We are in the midst of discussions with them about doing that. We would like to try to solve the whole thing at once.

• 2135

What the U.S. does in IRAs is that instead of having a formula for a RRIF pay-out of $1/(90 \text{ minus age})$, they have a formula that is $1/(\text{life expectancy})$, in rough terms. So the result of it is that it does not even end at 100, because your number goes down and your fund goes down to some extent, but the proportion you have to pay out becomes—

The Chairman: Let us not do that. Let us deal with even numbers. But the 100 sounds reasonable to me, and I was wondering if we could perhaps look at that.

Mr. Dorin: Are you planning on living to 100?

Mr. Horner: We are positive toward that.

The Chairman: I thought, because this is a very difficult subject for all of us and we are not too bright, maybe we could go home and have a sleep and think about it all and meet you again next week. Okay?

Mr. Horner: Okay.

[Traduction]

Le président: Sans même avoir à payer de l'impôt à titre de protection. Il leur suffira de faire une promesse à leurs membres et de faire pour eux les versements.

M. Lynn: Oui.

Le président: Comme ce sont des organismes publics, ils n'auront qu'à faire le versement.

M. Lynn: Oui.

Le président: À l'heure actuelle, c'est à 71 ans que l'on est obligé de toucher l'argent investi dans un REER ou de le transférer dans un FERR. Avez-vous envisagé de repousser cette limite d'âge ou de porter la limite magique de 90 ans à 100 ans?

M. Horner: Non sur le premier point; oui sur le deuxième.

Le président: Sur le deuxième point. . .

M. Horner: Si l'on accepte le fait que si l'on tient compte de notre optique actuelle, alors que nous n'en sommes qu'au stade des conjectures. . .

Le président: Compte tenu du fait que presque toute la population active a une espérance de vie qui se situe aux alentours de 80, 82 ans ou quelque chose comme ça, vous savez bien que 90 ans, ce n'est plus un âge canonique. Je me demande si vous avez envisagé de porter cette limite à 100 ans. Est-ce que c'est possible de le faire?

M. Horner: Cela posera peut-être des problèmes de rédaction étant donné que d'autres propositions ont été faites par l'Association canadienne des organismes de contrôle des régimes retraite, qui souhaite que l'argent des régimes de retraite soit versé dans des FERR en prévoyant des versements d'annuités du type de ceux des FERR. Nous sommes en train d'en discuter. Nous aimerions résoudre l'ensemble du problème d'un seul coup.

Dans le cas des comptes de retraite individuels (IRA) aux États-Unis, au lieu de calculer le montant de la rente servie par un FERR selon la formule $1/(90 \text{ moins l'âge})$, on utilise la formule $1/(\text{espérance de vie})$, à peu près. Ce qui se produit, c'est que les versements ne cessent même pas à 100 ans, parce que le nombre baisse et l'actif du fonds baisse dans une certaine mesure, mais la proportion des fonds à servir sous forme de rente. . .

Le président: Ne faisons pas cela. Utilisons des chiffres ronds. Le chiffre 100 me paraît raisonnable et je me demande si nous ne pourrions pas examiner cette option.

M. Dorin: Avez-vous l'intention de vivre jusqu'à 100 ans?

M. Horner: Nous ne sommes pas hostiles à l'idée.

Le président: Étant donné que c'est un sujet très complexe pour nous tous et que nous ne sommes pas trop brillants, nous pourrions peut-être rentrer chez nous, dormir un peu, réfléchir à tout cela et vous revoir la semaine prochaine. D'accord?

M. Horner: D'accord.

[Text]

The Chairman: This meeting stands adjourned.

[Translation]

Le président: La séance est levée.



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WITNESSES

From the Department of Finance:

Jim Lynn, Director General, Analysis;

Keith Horner, Social Tax Transfer, Personal Tax
Analysis Division;

Bill Holmes, Consultant.

TÉMOINS

Du ministère des Finances:

Jim Lynn, directeur général, Analyse;

Keith Horner, Transfert d'impôt — Programmes
sociaux, Division de l'analyse de l'impôt des
particuliers;

Bill Holmes, expert-conseil.

HOUSE OF COMMONS

Issue No. 87

Thursday, February 8, 1990

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 87

Le jeudi 8 février 1990

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance

*Procès-verbaux et témoignages du Comité
permanent des*

Finances

RESPECTING:

In accordance with S.O. 108(2) consideration of the 1989 Auditor General's Annual Report as it relates to the Departments of Finance and National Revenue

CONCERNANT:

En conformité avec le paragraphe 108(2) du Règlement étude du Rapport annuel du Vérificateur général pour l'année 1989 en ce qui a trait aux ministères des Finances et du Revenu national

WITNESSES:

(See back cover)

TÉMOINS:

(Voir à l'endos)



Second Session of the Thirty-fourth Parliament,
1989-1990

Deuxième session de la trente-quatrième législature,
1989-1990

STANDING COMMITTEE ON FINANCE

Chairman: Don Blenkarn

Vice-Chairman:

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Clément Couture
Murray Dorin
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Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Marie Carrière

Clerk of the Committee

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Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Le greffier du comité

Marie Carrière

MINUTES OF PROCEEDINGS

THURSDAY, FEBRUARY 8, 1990
(113)

[Text]

The Standing Committee on Finance met at 9:38 o'clock a.m. this day, in Room 209 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Bill Attewell, Don Blenkarn, Murray Dorin, Alfonso Gagliano, Steven Langdon, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Members present: Jean-Pierre Hogue for Clément Couture; Felix Holtman for Yvon Côté.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer.

Witnesses: From the Office of the Auditor General: Kenneth Dye, Auditor General; Nancy Cheng, Principal, Audit Operations Branch; Dennis Paproski, Principal, Audit Operations Branch; Jim Ralston, Principal, Audit Operations Branch.

Pursuant to Standing Order 108(2), the Committee commenced consideration of the 1989 Auditor General Report as it relates to the Departments of Finance and National Revenue.

Kenneth Dye made a statement and, with the other witnesses, answered questions.

At 11:05 o'clock a.m., the sitting was suspended.

At 11:09 o'clock a.m., the sitting resumed.

Questioning resumed.

At 11:44 o'clock a.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

PROCÈS-VERBAL

LE JEUDI 8 FÉVRIER 1990
(113)

[Traduction]

Le Comité permanent des Finances se réunit aujourd'hui à 9 h 38, dans la pièce 209 de l'édifice de l'Ouest, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Bill Attewell, Don Blenkarn, Murray Dorin, Alfonso Gagliano, Steven Langdon, Diane Marleau, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens et Douglas Young.

Membres suppléants présents: Jean-Pierre Hogue remplace Clément Couture; Felix Holtman remplace Yvon Côté.

Aussi présents: Du Service de recherche de la Bibliothèque du Parlement: Basil Zafiriou, analyste principal et Richard Domingue, attaché de recherche.

Témoins: Du Bureau du Vérificateur général: Kenneth Dye, vérificateur général; Nancy Cheng, directrice principale, Opérations de vérification; Dennis Paproski, directeur principal, Opérations de vérification; Jim Ralston, directeur principal, Opérations de vérification.

En conformité du paragraphe 108(2) du Règlement, le Comité reprend l'étude du Rapport du Vérificateur général pour 1989 en ce qui a trait aux ministères des Finances et du Revenu national.

Kenneth Dye fait un exposé puis, avec les autres témoins, répond aux questions.

À 11 h 05, la séance est suspendue.

À 11 h 09, la séance reprend.

L'audition des témoins se poursuit.

À 11 h 44, le Comité s'ajourne jusqu'à nouvelle convocation du président.

La greffière du Comité
Marie Carrière

EVIDENCE

*[Recorded by Electronic Apparatus]**[Texte]*

Thursday, February 8, 1990

• 0938

The Chairman: Our meeting this morning is pursuant to Standing Order 108(2) as it relates to the Department of Finance and National Revenue, and consideration of the 1989 Auditor General's report with respect to those matters, and of course with respect to some of the problems that the committee faces generally in terms of the proposed goods and services tax and with respect to the committee's inquiry into inefficiencies or losses or waste in government.

Our witness is Mr. Kenneth Dye, the Auditor General of Canada. With him is Mr. Larry Myers, Deputy Auditor General, and Ms Bonnie Miller, Assistant Auditor General. Mr. Dye, if you would proceed, I believe you have some comments.

Mr. Kenneth M. Dye (Auditor General of Canada): Thank you, Mr. Chairman. I would like to thank your committee for the interest they have in the work of my office. I am here today to discuss our 1989 audits of the Department of Finance and Revenue Canada. I hope our reports will be of some assistance to your committee. I know your members may have a number of questions about these audits, but first I would like the opportunity to comment briefly on what I think are some of the important messages arising from this work.

Chapter 13 deals with the management of foreign exchange operations. It seeks to raise Parliament's awareness of the complex systems and processes in place at the Department of Finance to control Canada's exchange rate.

Since 1987 foreign exchange reserves have increased sharply, rising from U.S. \$2.6 billion to U.S. \$13.6 billion at the end of 1988. These expanded reserves allow and challenge managers to improve rates of return and reduce interest costs. We noted that the costs of financing the Exchange Fund Account are borne by the Consolidated Revenue Fund and are not reflected in the information provided to Parliament about the management of the Exchange Fund Account.

• 0940

In my view, the Department of Finance should further strengthen its systems and processes to reduce net operating costs. As well, they need to systematically consider the risk and reward trade-offs involved in

TÉMOIGNAGES

*[Enregistrement électronique]**[Traduction]*

Le jeudi 8 février 1990

Le président: En conformité avec le paragraphe 108(2) du Règlement, nous allons examiner ce matin le rapport du vérificateur général de 1989 touchant les ministères des Finances et du Revenu national. Nous nous pencherons également sur les problèmes soulevés par la taxe proposée sur les biens et services et nous poursuivrons l'enquête du comité sur le manque d'efficacité et le gaspillage au sein du gouvernement.

Nous accueillons M. Kenneth Dye, vérificateur général du Canada. Il est accompagné de M. Larry Myers, sous-vérificateur général, et de M^{me} Bonnie Miller, vérificatrice générale adjointe. Je pense, monsieur Dye, que vous voulez nous présenter un exposé liminaire. Je vous cède la parole.

M. Kenneth M. Dye (vérificateur général du Canada): Je vous remercie, monsieur le président. Je tiens à remercier le comité de l'intérêt qu'il porte aux travaux de mon Bureau. Je suis ici aujourd'hui pour discuter des vérifications des ministères des Finances et du Revenu que nous avons effectuées en 1989. J'espère que nos rapports seront utiles à votre comité. Je sais que les membres du comité soulèveront des questions à propos de ces vérifications. J'apprécierais néanmoins avoir l'occasion de formuler de brefs commentaires sur ce que je crois être des messages importants qui découlent de ce travail.

Le chapitre 13 traite de la gestion d'opérations de change et il a pour but de mieux faire connaître au Parlement les systèmes et les procédés complexes en place au ministère des Finances pour contrôler le taux de change du dollar canadien.

Depuis 1987, les réserves de devises étrangères ont beaucoup augmenté. Elles étaient de 2,6 milliards de dollars américains, en 1987, et elles atteignaient 13,6 milliards de dollars américains, à la fin de 1988. Les réserves accrues permettent aux gestionnaires d'obtenir de meilleurs taux de rendement et de réduire les frais d'intérêt, et elles les mettent au défi de le faire. Nous avons remarqué que les coûts de financement du Compte du fonds des changes sont assumés par le Trésor (Fonds du revenu consolidé) et qu'ils ne se retrouvent pas dans l'information fournie au Parlement à propos de la gestion du Compte du fonds des changes.

À mon avis, le ministère des Finances devrait renforcer ses systèmes et procédés qui visent à réduire les coûts nets de fonctionnement. De même, il est nécessaire qu'il étudie de façon plus systématique les risques et les

[Texte]

managing assets and liabilities denominated in foreign currencies. We also believe that understandable reference material on foreign exchange operations should be developed and presented to Parliament.

Another activity of the Department of Finance that my office audited for the first time was the administration of tax collection agreements reported in chapter 14. Under these agreements the federal government collects income taxes on behalf of certain provinces and territories which it subsequently remits to them. In 1987-88 the taxes collected on their behalf were about \$20 billion.

While we found that much effort was made to administer the agreements in accordance with the terms and conditions, there were several deficiencies. Little useful information was provided to Parliament on the administration of the agreements. The methodology used for calculating income taxes payable to the provinces had in some years led to the underestimation or overestimation in the interim payments to the provinces, sometimes in significant amounts.

Chapter 18 deals with our audit of the Excise Branch of the Department of National Revenue, Customs and Excise. Our objective was to review and assess the branch's operations in key areas of administering the federal sales tax system and to identify opportunities for improvements.

The Excise Branch has made a number of attempts to cope with its changing environment. However, we reported a number of weaknesses in the administration of the federal sales tax system. We were concerned that the level and scope of enforcement activity has been decreasing over time. Information on performance and compliance has not been adequate and data has not been used to the best advantage for program administration. Certain departmental practices have gone beyond legislation—tools of work and staff training could be improved.

In April 1989, when we were concluding the audit, the Minister of Finance introduced the proposed goods and services tax with the federal budget. We noted this in our report as part of the changing environment and recommended that the lessons learned from the FST regime be taken into consideration in planning for the implementation of the proposed tax. Meanwhile, the FST system will continue to be an essential revenue program, and the department must remain vigilant in keeping the present system honest to minimize revenue loss.

Chapter 19 of my report concerning Revenue Canada Taxation's revenue programs and source deductions made a number of observations that may be of interest to this committee in its review of the department's estimates. I believe that the chapter taken as a whole provides a useful

[Traduction]

avantages que comporte la gestion de l'actif et du passif en devises étrangères. Nous croyons également qu'il faudrait élaborer et présenter au Parlement des documents de référence sur les opérations de change qui soient faciles à comprendre.

Mon Bureau a vérifié pour la première fois une autre activité du ministère des Finances. Il s'agit de l'application des accords de perception fiscale dont les résultats sont signalés dans le chapitre 14. En vertu de ces accords, le gouvernement fédéral perçoit l'impôt sur le revenu au nom de certaines provinces et territoires et le leur verse par la suite. En 1987-1988, l'impôt perçu en leur nom s'est élevé à environ 20 milliards de dollars.

Nous avons constaté que le ministère s'efforçait d'appliquer les accords conformément aux conditions qui les régissent; toutefois, nous avons relevé plusieurs lacunes. Peu d'information utile était fournie au Parlement sur l'application des accords. Les méthodes utilisées pour calculer le montant d'impôt sur le revenu qui revient aux provinces ont entraîné, certaines années, une sous-estimation ou une surestimation, parfois importante, des versements provisoires faits aux provinces.

Le chapitre 18 porte sur la vérification que nous avons effectuée à la Direction de l'Accise du ministère du Revenu national, Douanes ou Accise. Nous voulions examiner et évaluer les opérations de la Direction dans des secteurs-clés de l'administration du régime de la taxe de vente fédérale et trouver les améliorations qui pourraient être apportées.

La Direction de l'Accise a plusieurs fois tenté de s'adapter à son environnement en évolution. Cependant, nous avons signalé un certain nombre de faiblesses dans l'administration du régime de la taxe de vente fédérale. La baisse graduelle du niveau et de l'étendue des activités d'exécution de la loi nous a préoccupés. L'information sur le rendement et sur la conformité n'était pas suffisante, et les données n'ont pas été utilisées au mieux pour l'administration du régime. Certaines pratiques du ministère ont débordé le cadre de la loi. De plus, les outils de travail et la formation du personnel pourraient être améliorés.

En avril 1989, au moment où nous terminions la vérification, le ministre des Finances introduisait la taxe proposée sur les produits et services dans le budget fédéral. Nous avons dit dans notre rapport que cela faisait partie d'un changement d'environnement et nous avons recommandé que les leçons tirées de l'administration de la taxe de vente fédérale soient prises en considération au moment de planifier l'instauration de la taxe proposée. Entre-temps, le régime de la TVF demeurera une source de recettes essentielle, et le ministère doit veiller de près à ce que le présent régime soit respecté pour minimiser les pertes de recettes.

Le chapitre 19 de mon rapport, qui porte sur les Programmes de recettes et les Retenues à la source de Revenu Canada, Impôt, renferme des observations qui pourraient intéresser le comité pour son examen de la partie du Budget des dépenses consacrées à ce ministère.

[Text]

overview of the techniques the department uses to deploy its resources. The chapter acknowledges the significant increases in collection which the department obtained through its expansion of payroll and non-resident audit coverage since 1984-85 fiscal year. I note that there appears to be potential for further improvements in this area, but that audit must compete for resources with certain mandatory workloads, such as responding to taxpayer inquiry. The department has also improved its management of cash.

The date from the department's performance measurement system revealed variations in productivity levels across taxation centres. In view of these variations, I encouraged the department to study the related operations to identify efficiency improvements.

An audit not in chapter 4 of my report dealt with a \$350 million loophole in the Excise Tax Act. The Standing Committee on Public Accounts reviewed the matter and issued a report on it last fall. The committee requested a response from the Minister of Finance by March 31 of this year.

My report contained two additional audit notes relating to the Department of Finance. We found that duplicate accounting records were maintained by the department itself and the Bank of Canada with respect to domestic public debt. The cost of this duplication could be avoided. We also identified an incident of non-compliance with the Financial Administration Act. During 1988-89, the department failed to obtain the required Governor in Council approval for the issuance of \$2 billion in treasury bills.

In conclusion, Mr. Chairman, I would like to emphasize that the matters before you are important value for money issues. While perhaps not as exciting as matters of government policy, they are nonetheless important in the pursuit of value for money for taxpayers' dollars. I am optimistic that your committee will approach these matters before you today with that in mind. Thank you, Mr. Chairman.

The Chairman: Thank you very much, Mr. Dye. It is important to us on a number of fronts to have you here today. Of course your testimony is valuable as we go into the estimates that will be before us shortly.

I am going to start with Mr. Nystrom.

Mr. Nystrom (Yorkton—Melville): May I just pass for a moment?

The Chairman: All right. Mr. Soetens.

[Translation]

J'estime que ce chapitre, dans l'ensemble, donne une idée utile des techniques qu'utilise ce ministère pour affecter ses ressources. Ce chapitre fait état des augmentations appréciables des montants perçus, attribuables à l'élargissement du champ de la vérification des listes de paye et des non-résidents, depuis l'exercice 1984-1985. Je remarque qu'il semble y avoir des possibilités d'amélioration dans ce domaine, mais les activités de vérification doivent rivaliser pour les ressources avec certaines charges obligatoires, notamment les services de renseignements au public. Le ministère a également amélioré la gestion de sa trésorerie.

Des données qui proviennent du système d'évaluation du rendement du ministère ont révélé que les niveaux de productivité différaient grandement d'un centre fiscal à l'autre. J'ai donc incité le ministère à étudier les opérations en cause pour trouver des possibilités d'améliorer l'efficacité.

Au chapitre 4 de mon rapport, il y a une note de vérification sur une échappatoire de l'ordre de 350 millions de dollars dans la Loi sur la taxe d'accise. Le Comité permanent des comptes publics a étudié cette question et a présenté un rapport à ce sujet l'automne dernier. Le comité a demandé au ministre des Finances d'y donner suite, au plus tard le 31 mars 1990.

Mon rapport renferme deux autres notes de vérification qui concernent le ministère des Finances. Nous avons relevé le fait que le ministère et la Banque du Canada tenaient des registres en double en ce qui concerne la comptabilisation de la dette publique. Ce double emploi pourrait être évité. Nous avons également relevé un cas de non-conformité à la Loi sur l'administration financière. Au cours de 1988-1989, le ministère a omis de demander l'approbation du gouverneur en conseil pour l'émission de bons du Trésor d'une valeur de 2 milliards de dollars.

Pour conclure, monsieur le président, j'aimerais mettre l'accent sur l'importance des questions dont je vous fais part aujourd'hui. Elles n'ont peut-être pas l'attrait des questions de politique gouvernementale, mais il reste qu'elles revêtent de l'importance dans la poursuite de l'optimisation des ressources lorsqu'il s'agit de l'argent du contribuable. Je demeure persuadé que c'est dans cet esprit que votre comité abordera les questions que je soulève aujourd'hui devant vous. Je vous remercie, monsieur le président.

Le président: Je vous remercie, monsieur Dye. À de nombreux égards, votre présence ici aujourd'hui est importante pour nous. Votre témoignage est précieux, car nous étudierons bientôt les budgets des dépenses qui seront déposés.

Je donne la parole à M. Nystrom.

M. Nystrom (Yorkton—Melville): Puis-je passer mon tour pour l'instant?

Le président: Très bien. Monsieur Soetens.

[Texte]

• 0945

Mr. Soetens (Ontario): Mr. Dye, you made many references in your report to the collection of the federal sales tax that presently exists and some of the problems that you saw in that current system. Also you made some comments about the collection of the goods and services tax and the possibility of problems because of the nature of spreading the collectors across Canada and so on. Would you care to elaborate a little further on what problem you perceive on that side of the issue?

Mr. Dye: I would be happy to, Mr. Chairman. Our audit was of the federal sales tax. Noting as we did as we were completing the audit of the possibility of the GST, we added some reflections on the implications of the operation of FST as how it might impact on GST.

There were a number of things in the FST operation—and let me say we are not auditing GST—that produced a number of concerns for us. For example, there is the question of monitoring compliance with the act. Resources had been decreased and decreased and decreased over time so that the monitoring process for FST was becoming weak, very weak. We were concerned about the training of people.

We are concerned about their technology. They were not up to date in terms of the use of technology. I think that is a concern that we had. We think there should be improvements in equipping people with the proper technologies so they can be efficient and effective in their work and so that they organize properly and train people properly so they are ready to go.

My concern, Mr. Chairman, is that the existing tax base is something of the order of under \$2 million an hour for the FST, and the GST is slightly over \$2 million an hour I think. We are talking \$50 million, plus or minus, a day. If we do not continue the existing system, the FST, right to the very last day and then enforce—there will be some ripple beyond the end of the tax in order to collect the taxes—there is huge potential for losses.

The same thing with the imposition of the new tax. The staff of the department have to understand how to get into business on hour one. They cannot afford to have a three-day slippage, because three days is \$150 million. This is very expensive sport. It must be done well on both ends. Close off the old one, start the new one with proper administration.

Mr. Soetens: When you talk about that proper administration, the suggestion has been that we could use up to or we could need up to another 3,900 employees. From your observation do you believe that we can hire and train those employees quickly enough to be operational by January 1 or as fast as we need them shortly thereafter? I guess that would be the main

[Traduction]

M. Soetens (Ontario): Monsieur, dans votre rapport vous mentionnez la perception de la taxe de vente fédérale ainsi que certains problèmes du système actuel. Vous avez également formulé quelques commentaires sur la perception de la taxe des produits et services ainsi que sur la possibilité de problèmes qui pourraient survenir, étant donné que les percepteurs seront répartis partout au Canada. Pourriez-vous parler davantage des problèmes que vous envisagez?

M. Dye: Volontiers. Nous avons fait la vérification des opérations de la taxe de vente fédérale. Tout au long de notre vérification, nous avons tenu compte de l'adoption possible de la TPS. Nous avons formulé quelques commentaires sur les incidences que la TVF pourrait avoir sur la TPS.

Quelques aspects de la TVF ont soulevé un certain nombre d'inquiétudes—il ne s'agit pas ici d'une vérification de la TPS. Par exemple, le contrôle de la conformité à la loi. Au cours des années, les ressources ont été continuellement réduites, de sorte que le contrôle de la TVF était devenu très insuffisant. La formation des gens nous a particulièrement inquiétés.

La technologie utilisée, qui date, a soulevé certaines inquiétudes. Nous sommes d'avis qu'il y a lieu d'améliorer l'équipement en faisant appel aux technologies qui conviennent de sorte que les employés puissent faire preuve d'efficacité et d'efficience dans leur travail, s'organiser convenablement pour préparer les gens à leur travail.

Les recettes générées par l'assiette fiscale actuelle sont inférieures à 2 millions de dollars l'heure pour la TVF et, je pense, légèrement supérieures à 2 millions de dollars l'heure pour la TPS. Il s'agit donc d'une somme quotidienne qui voisine 50 millions de dollars. Si nous ne maintenons pas le système actuel, celui de la TVF, jusqu'à la toute fin, pour mettre en vigueur un nouveau système, il y aura certaines perturbations au cours de la période de transition, et les possibilités de pertes de recettes sont énormes.

Les mêmes remarques valent pour l'imposition de la nouvelle taxe. Les fonctionnaires du ministère doivent en comprendre le fonctionnement dès le début. Ils ne peuvent se permettre un période de rodage de trois jours, car cela représente 150 millions de dollars. Il s'agit d'une activité dispendieuse et rien ne doit clocher ni dans la suppression de l'ancienne taxe, ni dans l'introduction de la nouvelle. Il faut mettre fin à l'ancien régime et introduire le nouveau avec une administration adéquate.

M. Soetens: Lorsque vous parlez d'une administration adéquate, on a laissé entendre qu'il faudrait 3,900 employés de plus. Selon votre expérience, pensez-vous qu'il est possible d'embaucher et de former ces employés rapidement pour qu'ils puissent être prêts à travailler d'ici le 1^{er} janvier selon les besoins par la suite? Selon vous, serons-nous prêts à temps?

[Text]

question. Do you think we can be ready, from your observations?

Mr. Dye: Mr. Chairman, I think that question is one of looking at the history, in terms of what the audit is. My perspective is what was there. Based on what was there, monitoring the FST, I have reported to Parliament that I have concerns whether they can in fact be ready.

In order to get ready the department will need to know the process. If the government decides to collect the tax themselves, they will have to have people capable of collecting the tax themselves. If they contract out to provincial agencies who already have lists of tax filers, then they may need fewer. Presumably they would need fewer because other people are contracted to do the work.

There are other options. They could go to other agencies that collect or have the ability to be in contact across the land in every nook and corner of our land. The banks and trust companies, for example, could act as agents perhaps. This is a matter of government policy, it is not my call. I do not know.

Certainly we have not audited the needs analysis. We have not done anything on GST. We have only really offered our conclusions, because it is an anxiety. We have a responsibility to be sure that the government can protect its assets, and one of the assets is the incoming cashflow. We are trying to alert parliamentarians of the need for good administration from day one if anything is to change.

• 0950

Mr. Soetens: In your report on the existing federal sales tax—I do not have the exact comment in front of me—you refer to the problem of collection and the special arrangements the department had with filers. Perhaps these were some of the 22,000 exemptions often talked about. Would you care to elaborate further on what was wrong with those arrangements and what we should do to avoid a similar situation next year?

Mr. Dye: I am not familiar with all 22,000 variations to the plan, but obviously the fact 22,000 variations were required indicates problems somebody was trying to adjust in the name of equity to the tax-filer. The greatest concern I have is that the old system seems complex. In terms of efficiency, the new system should be less complex.

Mr. Soetens: Coming back again to this same comment on the collection of the existing FST, did you suggest we were losing money because of the inefficiencies in the system, or because of deals you could not audit?

Mr. Dye: We addressed it from the inefficiencies, the lack of monitoring. It is our view there is quite a potential

[Translation]

M. Dye: Monsieur le président, je pense qu'il faut se rappeler quel était l'objectif de la vérification. Nous nous sommes penchés sur les structures en place et nous avons contrôlé la perception de la TVF. Dans le rapport présenté au Parlement, j'ai indiqué certaines inquiétudes, je me suis demandé si le ministère serait prêt à temps.

Pour se préparer, le ministère devra connaître les procédures. Si le gouvernement décide de percevoir lui-même la taxe, il devra avoir à son service des gens capables de faire ce travail. Si la perception est confiée aux organismes provinciaux, qui disposent déjà de listes de déclarants, un nombre moins élevé d'employés sera alors nécessaire. On suppose que le ministère aura besoin d'un moins grand nombre d'employés, car ce travail est confié en sous-traitance.

D'autres solutions s'offrent également. Le gouvernement pourra faire appel à d'autres organismes qui font de la perception ou ont les moyens de le faire dans tous les coins et recoins du pays. Par exemple les banques et compagnies de fiducie pourraient agir à titre de percepteurs. Il s'agit là d'une question de politique gouvernementale, il ne m'appartient pas de décider.

Nous n'avons pas vérifié l'analyse des besoins. Nous n'avons rien fait au sujet de la TPS. Nous avons uniquement fait part de nos conclusions, car il s'agit d'un sujet qui soulève de l'inquiétude. Nous devons nous assurer que le gouvernement protège ses actifs, notamment les entrées de fonds. Nous essayons de faire comprendre aux parlementaires qu'il faut mettre en place une bonne administration dès le départ si nous voulons un véritable changement.

M. Soetens: Dans votre rapport sur l'actuelle taxe de vente fédérale—je n'ai pas le texte sous les yeux—, vous mentionnez le problème de la perception et des dispositions spéciales conclues entre le ministère et les déclarants. Il s'agit peut-être de quelque 22,000 exemptions dont on parle tant. Pourriez-vous nous expliquer plus en détail quelles étaient les lacunes de telle ententes et quelles mesures nous devrions prendre afin d'éviter une situation semblable l'an prochain?

M. Dye: Je ne connais pas très bien les 22,000 exemptions, mais un tel nombre indique que l'on a essayé de régler des problèmes d'équité pour le déclarant. L'ancien régime semble complexe; voilà ce qui me préoccupe. Par souci d'efficacité, le nouveau régime devrait l'être moins.

M. Soetens: Je reviens sur votre remarque touchant la perception de la TVF actuelle, avez-vous laissé entendre que nous perdons de l'argent à cause du manque d'efficacité du système ou à cause d'ententes qu'il ne vous a pas été possible de vérifier?

M. Dye: Nous nous sommes penchés sur le manque d'efficacité et les lacunes du contrôle. Selon nous, une

[Texte]

in having adequate surveillance. I do not have a statistic for you on the federal sales tax side, but over in the income tax side on collections and payroll deductions, if you pay a collector \$35,000 to \$50,000, they generate \$765,000 worth of recovery of tax. It is tremendous leverage in terms of providing appropriate surveillance in order to collect the taxes which are due.

Mr. Soetens: Are there auditors general in other countries? Have you had the opportunity to discuss with them what problems they experience in collecting or auditing a value-added tax?

Mr. Dye: There are auditors general in almost every country in the world, although Russia is a bit diffuse—they work by committee. I know the auditors general of China, Australia, and most countries of the world, particularly in the Commonwealth. I had one of our people who is very knowledgeable about taxation stationed on an exchange with the British auditor general. During his time there he made himself familiar with the British system, and he has some working knowledge of some of the European systems. Personally, I have not had those conversations with other auditors general.

Mr. Soetens: Thank you.

The Chairman: Would it be possible before the end of the year to have some of your people familiarize themselves with value-added taxes and perhaps work with the Department of Revenue to make sure they set it up right?

Mr. Dye: Do not construe from the answer I gave that because we have not talked to the foreign auditors general that we do not know what is going on in Canada. I would like to—

The Chairman: I appreciate that, but I think we have to learn something here. There are 48 other countries in the world that have this system in one form or another. What we ought to do is take a look at some of the ones that are relatively similar to our own, and learn from any mistakes they made so we do not duplicate them here.

Mr. Dye: I expect the Department of Finance would be the people who have to know what is going on in order to avoid pitfalls. I will undertake to have my staff all tuned up and ready to go should the tax be imposed.

The Chairman: There is one other issue. There are a number of outstanding lawsuits with respect to federal sales tax, and I am told that some \$2 billion of tax is at risk. Have you looked at those lawsuits—there are about 135 of them, I am told—and do you have any comments with respect to them?

• 0955

Mr. Dye: I am not aware of the losses you refer to. I do not think we reported on these in our chapter.

[Traduction]

surveillance adéquate permettrait de générer d'autres recettes. Je ne peux vous fournir de statistiques concernant la taxe de vente fédérale, mais quand on considère la perception et les retenues à la source de l'impôt sur le revenu, au percepteur, auquel on verse une rémunération de 35,000\$ à 50,000\$, récupère en impôts quelque 765,000\$. Il s'agit d'un très bon outil de surveillance et de perception des impôts en souffrance.

M. Soetens: D'autres pays ont-ils un vérificateur général? Avez-vous eu la possibilité de discuter avec eux de leurs problèmes de perception ou de vérification d'une taxe sur la valeur ajoutée?

M. Dye: Chaque pays au monde possède un vérificateur général, bien que la situation en Russie ne soit pas claire, ce pays utilisant un système de comités. Je connais les vérificateurs généraux de Chine, d'Australie et de la plupart des pays du monde, particulièrement ceux du Commonwealth. Un de nos employés, spécialiste en fiscalité, a participé à un échange au Bureau du vérificateur général d'Angleterre. Au cours de son séjour, il a étudié le régime britannique. Il connaît également certains régimes européens. Je n'ai pas eu l'occasion d'avoir des discussions avec d'autres vérificateurs généraux.

M. Soetens: Merci.

Le président: D'ici la fin de l'année, serait-il possible que certains de vos employés étudient les régimes de taxe sur la valeur ajoutée et collaborent avec le ministère du Revenu pour qu'il mette bien en place les structures nécessaires?

M. Dye: Parce que je n'ai pas parlé à d'autres vérificateurs généraux à l'étranger, vous ne devez pas en déduire que nous ne savons pas ce qui se passe au Canada. J'aimerais. . .

Le président: Je comprends. Nous avons cependant à tirer certaines leçons. De par le monde, 48 pays ont, sous une forme ou une autre, adopté un tel régime. Nous devons nous pencher sur les régimes qui ressemblent à celui retenu par le Canada et tirer les leçons qui s'imposent afin de ne pas répéter les mêmes erreurs.

M. Dye: Je pense que les fonctionnaires du ministère des Finances veulent savoir exactement ce qui se passe afin d'éviter les embûches. Je vais m'assurer que mon personnel sera prêt à faire face à la musique si cette taxe est adoptée.

Le président: J'aimerais soulever une autre question. Il y a un certain nombre de procès en suspens concernant la taxe de vente fédérale. L'enjeu de ces poursuites représente environ 2 milliards de dollars. Avez-vous étudié ces poursuites? Avez-vous des commentaires à nous formuler à ce sujet? On m'a dit qu'il y a environ 135 poursuites.

M. Dye: Je ne sais pas de quelles pertes vous parlez. Je ne pense pas qu'il en ait été question dans notre chapitre.

[Text]

The Chairman: No, you did not. You reported on \$350 million, if I recall.

Mr. Dye: That is the excise tax loophole.

The Chairman: What I am talking about here is that this was only sort of like the down payment. I was wondering if you got further into it to take a look at what was in fact there.

Mr. Dye: If you will permit me, I will ask Nancy Cheng, chartered accountant and principal responsible for the audit of the activities of the federal sales tax and the excise tax areas, to join us at the table, because I do not know the answer to your question and I do not know if we have reported on it publicly.

The Chairman: Please.

Ms Nancy Cheng (Principal, Audit Operations Branch, Office of the Auditor General of Canada): Mr. Chairman, we did report on the marketing and distribution companies, the \$350 million to which you were referring. There were some cases we were looking at and we were looking at the administrative procedures, the 22,000 special provisions and this type of thing. In terms of cases we have only reported, I guess, one other case where we talked about aggregating policy, and the pay-out there is an estimate of about \$20 million. We do not have major or large cases to report publicly. It is not reflected, I guess.

The Chairman: But you did look at the marketing company loophole.

Ms Cheng: The marketing company loophole was examined by a colleague of mine but I did allude to it because the Department of Customs and Excise could do certain things to make sure that at least the companies were set up properly and that they do have some sort of defensible transfer of pricing.

The Chairman: Did you look at any of the lawsuits where the department is in fact in court with taxpayers to determine whether the taxes are payable or not? Those lawsuits tend to revolve around marketing and guarantee companies, distribution arrangements and so on.

Ms Cheng: We did not examine those particular court cases, Mr. Chairman. I guess it all started with the Vanguard case, which was referred to in the report, but then we did not follow through and sort of look at each and every case that has to do with marketing and distributing companies.

Mr. Pickard (Essex—Kent): You mentioned proper surveillance and keeping an eye on what was going on. Looking at the strategies that must be used in order to make sure the proper tax is being paid and the difference in amounts that you suggested, I guess by hiring a \$50,000 person you could generate a very enormous sum of taxes. Do you have any estimates at all or any ballpark figures that might tell us, if we were surveilling properly, if we

[Translation]

Le président: Non, en effet. Si je me souviens bien, vous avez parlé de 350 millions de dollars.

M. Dye: Il s'agit de l'échappatoire à la taxe de l'accise.

Le président: Ce que je veux dire, c'est qu'il ne s'agissait en fait que d'une sorte de dépôt. Avez-vous examiné la chose plus avant?

M. Dye: Si vous le permettez, je demanderai à Nancy Cheng, comptable et responsable de la vérification des activités liées à la taxe fédérale de vente et à la taxe d'accise, de s'approcher de la table, car je ne connais pas la réponse à votre question et je ne sais pas si nous avons fait des déclarations publiques à ce sujet ou non.

Le président: Bien sûr.

Mme Nancy Cheng (directrice principale, Direction générale des opérations de vérification, Bureau du vérificateur général du Canada): Nous avons en effet publié un rapport sur les sociétés de commercialisation et de distribution, et ce sont les 350 millions de dollars dont vous parliez. Nous surveillons certains cas, et notamment les procédures administratives, les 22,000 dispositions spéciales et ce genre de chose. Il n'y a qu'une autre affaire dont nous ayons également parlé au sujet du principe de rajustement, et cela devrait rapporter à peu près 20 millions de dollars. Nous n'avons pas de cas majeurs ou importants à signaler. Je suppose qu'il n'en est pas question.

Le président: Mais vous avez tout de même examiné l'échappatoire dont se sont servies les sociétés de commercialisation.

Mme Cheng: Oui, un de mes collègues l'a examinée, et j'y ai fait allusion parce que le ministère des douanes et accises pourrait faire un certain nombre de choses pour s'assurer qu'au moins les sociétés ont été convenablement constituées et qu'elles peuvent à peu près défendre les transferts qu'elles font sur les prix.

Le président: Avez-vous examiné certains des cas où le ministère et les contribuables demandent aux tribunaux de déterminer si certaines taxes sont payables ou non? Ces actions tournent en général autour des sociétés de commercialisation et de garantie ainsi que d'arrangements liés à la distribution, etc..

Mme Cheng: Non, nous n'avons pas examiné cela en particulier. Je crois que tout a commencé avec l'affaire Vanguard, dont il est question dans le rapport, mais nous n'avons pas suivi la question et n'examinons pas chacun des cas qui touchent aux sociétés de commercialisation et de distribution.

M. Pickard (Essex—Kent): Vous avez parlé de la nécessité d'une bonne surveillance et d'avoir l'oeil sur ce qui se passe. Si l'on considère les stratégies nécessaires pour s'assurer que l'on paie les impôts voulus et si l'on considère les montants dont vous avez parlé, je suppose qu'en embauchant quelqu'un à 50,000\$, on pourrait récolter énormément d'impôts. Avez-vous fait une estimation de ce que nous récolterions si nous surveillions

[Texte]

were applying the tax rules vigorously to organizations—is there any way you can come up with any estimate of what income might be generated with the present tax system without changing structures and confusing the issue?

Mr. Dye: I regret I do not have that estimate. It is something I believe the tax department should know in terms of the ultimate enforcement of the existing rules and what that would generate. I reported to Parliament two years ago that, on the collection of income tax slow payments where people were behind in their payments, the government has changed the attitude of collectors. We used to write off something in the order of \$50 million a year. That \$50 million had gone to \$600 million in a period of four years and we felt that was not a change in rules but a change in attitude of the collection people in order to be fair to the taxpayer.

There had been a situation where the tax department had been embarrassed, accused of stealing funds out of a child's piggy bank to pay a father's tax, or something of that order, and as a consequence the department eased up in terms of the way it collected tax. It did not insist, for example, the tax be paid in advance and then they would negotiate on the properness of the collection. There have been significant additional write-offs. That is not a change in structure, but I think a change in attitude.

If enforcement were moved up to the point where no doubt Members of Parliament would be receiving letters from taxpayers saying they were being harassed by tax collectors, to the point that perhaps there might be a political reaction, I have no idea where we are today and what full enforcement might mean in terms of collectivity. I do not know what the answer is.

• 1000

Mr. Pickard: Several people have suggested that you could be talking in the billions, not just hundreds of millions, of dollars that are sliding through. Is that a reasonable comment?

Mr. Dye: I believe that is reasonable. You are getting into a question of tax gap, I suppose, an enforcement of tax that is exigible on the underground economy. Nobody knows what the amount is. I believe that the Department of Finance should know. I have encouraged the department to make an estimate. It is not easy to make an estimate. I recognize that this is very soft areas.

How much is there, in terms of payments to labourers, for overtime payments being paid out in cash? How much is there on undeclared sales through just plain cheating? I do not know the answer to that, sir, but I think it would be worthwhile. The Government of Ontario tries to make an estimate. Other jurisdictions try to make an estimate. The Government of Canada chooses not to, but I think they should.

[Traduction]

les choses correctement, si nous appliquions plus strictement les règlements aux organisations—vous serait-il possible de nous fournir une estimation des recettes que l'on pourrait tirer du régime fiscal actuel sans en changer les structures ni tout embrouiller?

M. Dye: Non, je regrette, mais je n'ai pas ce genre de chiffre. Par contre, le ministère de l'impôt devrait savoir assez bien ce que devrait rapporter la législation fiscale actuelle si elle était strictement suivie. J'ai déclaré au Parlement il y a deux ans que les percepteurs pourraient se montrer plus stricts vis-à-vis des contribuables qui étaient en retard dans le règlement. Le gouvernement a demandé aux percepteurs de changer d'attitude. Autrefois, environ 50 millions de dollars passaient par profits et pertes chaque année. Ce chiffre était passé à 600 millions de dollars en quatre ans, et nous avons considéré que cela ne représentait pas un changement dans les règlements, mais bien dans les attitudes des percepteurs, qui voulaient se montrer justes vis-à-vis des contribuables.

Il y avait eu un moment où le ministère de l'impôt s'était fait accuser d'aller voler de l'argent dans les tirelires des enfants pour payer les impôts du père, ou quelque chose de ce genre, et c'est ainsi que le ministère s'est montré plus souple. Il n'insistait plus, par exemple, pour que l'impôt soit payé à l'avance, quitte à négocier ensuite le bien-fondé de la perception. C'est ainsi qu'il y a eu beaucoup de pertes. Il ne s'agit pas de changement dans les structures, mais bien dans les attitudes.

Si l'on insistait sur le respect de loi au point où les députés recevraient certainement des lettres des contribuables déclarant qu'ils se font harceler par les percepteurs d'impôt, au point où cela provoquerait peut-être une réaction politique, je ne sais absolument pas où nous en sommes aujourd'hui, et ce que le strict respect de la loi pourrait rapporter. Je ne peux pas vous le dire.

M. Pickard: Certains ont dit que cela pourrait représenter des milliards de dollars, et pas simplement des millions, qui échappent ainsi au Trésor public. Cela vous semble-t-il raisonnable?

M. Dye: Je crois que oui. Il s'agit là je pense, d'un vide fiscal, d'un impôt à percevoir sur l'économie parallèle. Personne ne sait ce que cela représente. Peut-être que le ministère des Finances devrait le savoir. Je l'ai invité à faire le calcul. Ce n'est pas facile. Je reconnais que c'est quelque chose d'assez flou.

Combien représentent ces paiements aux travailleurs journaliers, les heures supplémentaires payées en liquide? Combien y a-t-il de ventes non déclarées simplement par tricherie? Je ne sais pas, mais je pense que c'est important. Le gouvernement ontarien essaie de calculer ce que cela représente. D'autres provinces aussi. Le gouvernement canadien préfère ne pas le faire, mais j'estime qu'il le devrait.

[Text]

Mr. Pickard: Is it feasible to put an active work force there, which would be able to generate those types of dollars that you referred to?

Mr. Dye: I think there is potential for an increase in collections. I do not know what the amount is. I do not have an estimate so I am giving you an opinion based on no audit evidence, other than what we have seen reported so far, where there is good leverage. An extra dollar spent on collection yields tremendous returns.

Mr. Pickard: Thank you very much.

Mr. Nystrom: Mr. Dye, perhaps you could elaborate a bit more on the manufacturing setting up and marketing or distribution subsidiary in terms of the existing FST. You say that the problem has meant a tax loss of around \$300 million to \$350 million annually. That goes back how many years? Are you talking about three or four years? Is it getting worse? Or is it an average of the last?

Mr. Dye: The problem has existed a long time, a decade. I believe your committee has had several hearings on this point and also the Public Account Committee. There was a change, though, as a result of a tax case in 1988. I would think you are looking at several hundred million for a long time and then it has escalated to some potential of \$300 million, \$350 million, maybe more. I do not know the answer to that.

The Chairman: It is an enormous amount, over \$2 billion.

Mr. Dye: It is a lot of leakage over a long period of time and your committee has had two views on this thing. The last one I recollect was that you asked the government to produce a strategy that would plug the hole. It has not been done. I think it is a significant amount. I think the department estimates \$350 million and the Public Accounts Committee has also reported on that recently.

Mr. Nystrom: Maybe you could elaborate a bit more on the problems you might be faced with, in terms of the GST compared to the FST. The FST had a small number of taxpayers, 75,000 or 76,000, but it is now more than one million taxpayers. Additional training of staff will be required and so on. What should we be aware of as a finance committee, in terms of the transitional problems?

Mr. Dye: One of my concerns goes back to my comment about \$2 million an hour. If the tax is to be, my responsibility is to have an oversight over the processes of government, to see that what is due is collected. I must say that I am nervous about the timing. I do not know what is possible. I have not been talking to the deputy minister, but if I were the deputy minister—and thank goodness I

[Translation]

M. Pickard: Est-il possible de demander à des percepteurs d'aller chercher ce genre de montant dont vous parliez?

M. Dye: Je crois que l'on pourrait percevoir davantage. Je ne sais pas exactement ce que cela représente. Je vous donne donc un avis sans que la vérification ait été faite si bien que tout ce que je sais, c'est ce que d'autres ont déclaré jusqu'ici et qui indique qu'il y a de quoi à faire. Un dollar de plus consacré à la perception rapporte des montants énormes.

M. Pickard: Merci beaucoup.

M. Nystrom: Monsieur Dye, peut-être pourriez-vous préciser un peu votre pensée sur la TFV à propos des fabricants et des sociétés de commercialisation et de distribution. Vous dites que le problème a représenté quelque 300 à 350 millions de dollars de pertes fiscales par an. Cela remonte-t-il loin? Est-ce que vous parlez des trois ou quatre dernières années? La situation empire-t-elle? Ou est-ce une moyenne des dernières années?

M. Dye: Le problème existe depuis longtemps, 10 ans environ. Je crois que le Comité a déjà tenu plusieurs séances à ce sujet tout comme l'a fait le Comité des comptes publics. Toutefois à la suite d'un jugement rendu en 1988, les choses ont un peu changé. Cela a représenté plusieurs centaines de millions de dollars sur une longue période, et c'est ensuite passé à 300 ou 350 millions de dollars par an, peut-être plus. Je ne sais quoi vous dire à ce sujet.

Le président: C'est une somme énorme, plus de 2 milliards de dollars.

M. Dye: C'est en effet une fuite très importante sur une longue période, et le Comité a envisagé la chose de deux façons. Si je me souviens bien, la dernière fois, vous avez demandé au gouvernement de préparer une stratégie visant à combler cette lacune. Cela n'a pas été fait. Je crois que c'est une somme pourtant très importante. Le ministère estime que cela représente environ 350 millions de dollars, et le Comité des comptes publics a également présenté récemment un rapport à ce sujet.

M. Nystrom: Peut-être pourriez-vous nous préciser un tout petit peu les problèmes que l'on risque de rencontrer lorsque la TPS remplacera la TFV. Cette dernière comptait un nombre de contribuables relativement faible, 75,000 ou 76,000, alors qu'il y aura maintenant plus d'un million de contribuables. Il faudra donc donner une formation supplémentaire au personnel et prévoir un certain nombre d'autres choses. Quels sont les problèmes le Comité des finances devrait-il surveiller pendant la transition?

M. Dye: Une des choses qui me préoccupe revient à ce que je disais à propos de 2 millions de dollars de l'heure. S'il doit y avoir une telle taxe, il m'appartiendra de surveiller les méthodes utilisées par le gouvernement, de veiller à ce que ce qui est dû est bien perçu. Je dois dire que l'échéancier m'inquiète un peu. Je ne sais pas ce qui est possible. Je n'en ai pas parlé au sous-ministre, mais si

[Texte]

am not—I think I would have an enormous administrative challenge in front of me.

I would not know at this point in time whether I am responsible to collect the money or somebody else is. It has implications of big computers, small computers, 3,000 people, 1,000 people. They do not know what the deal is. I understand that several provinces—one has agreed and I think several others are close to indicating acceptance to the idea of jointly participating in the tax collection process.

That has enormous administrative implications. Do I train 1,000, 2,000, 3,000 people? Do I have a place in which to do it? We do not have spare universities around to fill. We do not have spare trainers. There are only so many people in the community who are willing to work in a bureaucratic environment for Public Service pay. I understand the marketplace is such that at the moment the private sector is willing to pay more than the public sector. So I would imagine—and I am only speculating—it is difficult to recruit able people.

• 1005

Again, I come back to the ability to do the job. If it is \$50 million a day, for how many days can we afford not to do our duty as administrators?

So I think the deputy minister of excise and customs has one very large challenge, and I am sure her team are doing their ultimate to achieve this. I imagine they are on a seven-day footing right now.

Mr. Nystrom: You said you are nervous about the timing. If you were Deputy Minister of Finance, what is the absolute deadline you would need? How much leeway would you need? Is January 1, 1991, much too early? Would you be saying give us another six months, give us another year?

Mr. Dye: I have not spoken to the deputy minister of customs and excise, so I do not know where she stands. I do not know what their plans are. We have not audited it. All I can predict is that there is an enormous challenge.

I think the answer to Mr. Nystrom's question would have to come from the department, because I just do not have any evidence and I do not have any knowledge. I am sorry.

Mr. Nystrom: But you are still nervous about the timing anyway, even though you are not prepared to say give me an extra six months—

[Traduction]

j'étais à sa place—et je suis bien content de ne pas y être—je crois que je considérerais que j'ai à relever un défi administratif énorme.

À l'heure actuelle, je ne saurais pas si je suis censé percevoir ces montants ou si quelqu'un d'autre doit le faire. On ne sait pas s'il faudra de gros ordinateurs, de petits ordinateurs, 3,000 personnes, 1,000 personnes. On ne sait pas du tout ce que cela représente. Je crois que plusieurs provinces—ou moins une, mais d'autres semblent vouloir faire la même chose—ont indiqué qu'elles étaient prêtes à accepter l'idée de participer au processus de perception de cette taxe.

Les implications administratives sont énormes. Doit-on former 1,000, 2,000, 3,000 personnes? A-t-on les locaux pour le faire? Nous n'avons pas d'universités vides à remplir. Nous n'avons pas non plus d'agents de formation qui n'ont que cela à faire. Il n'y a pas tellement de gens de la collectivité qui soient prêts à travailler dans l'administration pour une rémunération de fonctionnaire. Le marché est tel que, si je ne m'abuse, à l'heure actuelle, le secteur privé est prêt à payer davantage que le secteur public. J'imagine donc—et évidemment je ne sais rien de certain—qu'il est difficile de recruter les gens qu'il faudrait.

Là encore, je reviens à la capacité de faire ce qu'il y a à faire. Si cela représente 50 millions de dollars par jour, pendant combien de jours pouvons-nous nous permettre de ne pas nous acquitter de nos fonctions d'administrateurs?

La sous-ministre de Douanes et Accises a donc un défi très important à relever, et je suis certain que son équipe fait l'impossible pour le faire. Je suppose que l'on ne chôme pas en ce moment.

M. Nystrom: Vous dites que l'échéancier vous inquiète. Si vous étiez sous-ministre des Finances, quelle serait pour vous la dernière date possible? Quelle latitude vous faudrait-il? Est-ce que le 1^{er} janvier 1991 vous semble beaucoup trop tôt? Diriez-vous qu'il vous faut six mois de plus ou un an de plus?

M. Dye: Je n'en ai pas parlé à la sous-ministre de Douanes et Accises et je ne sais pas où elle en est. Je ne sais pas quels sont leurs projets. Nous n'avons pas vérifié la chose. Tout ce que je peux dire, c'est que le défi est énorme.

Je crois que c'est plutôt le ministère qui devrait répondre à la question de M. Nystrom, car je n'ai pas là les éléments nécessaires pour le faire. Je regrette.

M. Nystrom: Mais l'échéancier vous semble tout de même inquiétant, même si vous n'êtes pas prêt à dire qu'il vous faut six mois de plus—

[Text]

Mr. Dye: I run a department and I know what it takes to get a job done. You do not start late on a major challenge.

Mr. Nystrom: Do you think we started too late?

Mr. Dye: I do not know. You will have to ask the department.

Mr. Nystrom: You have also said in the past that you are concerned about some of the Canada Pension Plan contributions. You have talked here of a loss of \$108 million, or contributors' funds or unidentified earnings that have not been accounted for. I wonder if you could elaborate a bit on that. \$108 million is a fair amount of money. What does that mean in terms of—

Mr. Dye: I believe this is a very significant problem, which should be dealt with. Taxpayers report their contributions to the Canada Pension Plan through their tax returns. Employers report the collections on their behalf through the relevant processes from an employer's point of view. What we have is collections being put into the government coffers where they cannot allocate the sums to the individual contributor.

Each person who contributes is entitled to a benefit some day, based on the contribution time and sum. There is a formula that affects whether you are paying the maximum and if you have paid the maximum every month. As a consequence, if your contribution has not been credited to your personal account, the contributor is at risk of receiving less than he or she is entitled to when the day comes that they are entitled to receive payments.

At the moment there is \$108 million, I think we reported, on account that has to be sorted out. Presumably you can sort it out and apply this to individual taxpayers. But it has not been, and the number is growing. That account must—

The Chairman: How does it arise?

Mr. Dye: Perhaps illegible numbers on a return—

The Chairman: Remittances without returns and that type of thing?

Mr. Dye: —perhaps numbers that are wrong and there is no account to... somebody says his number is 1234 and in fact it is 1235, and the computer puts it in an account to sort out later.

The amount of money in this account that is yet to be sorted out is growing. I think that is of concern to parliamentarians and certainly of concern to the individual contributors, who will not get their legitimate benefits.

The Chairman: The contributions in a sense do not come from the contributors. The people doing the

[Translation]

M. Dye: Je dirige une administration et je sais ce qu'il faut pour faire un travail. On ne peut pas commencer en retard lorsqu'il s'agit de quelque chose d'important comme cela.

M. Nystrom: Pensez-vous que nous avons commencé trop tard?

M. Dye: Je ne sais pas. Vous devrez le demander au ministère.

M. Nystrom: Vous avez également dit en d'autres occasions que vous vous inquiétiez de certaines contributions au Régime de pension du Canada. Vous avez parlé d'une perte de 108 millions de dollars, ou de fonds des participants ou de recettes indéterminées qui n'ont pas été comptabilisées. Pourriez-vous préciser un peu votre pensée à ce sujet? Cent huit millions de dollars, c'est important. Que cela signifie-t-il pour—

M. Dye: Je crois en effet que c'est un problème très grave sur lequel il faudrait se pencher. Les contribuables déclarent leurs contributions au Régime de pension du Canada au moment de leur déclaration d'impôt. Des employeurs déclarent ce qu'ils perçoivent pour eux selon les formules prévues pour l'employeur. Il y a donc ainsi des sommes qui sont versées dans les coffres du gouvernement où l'on ne peut savoir comment se répartissent ces montants entre les différents cotisants.

Toute personne cotisant a droit un jour à une prestation en fonction de son temps et de son montant de cotisation. Une formule permet d'établir si vous payez le maximum et si vous avez payé le maximum chaque mois. Ainsi, si votre cotisation n'a pas été créditée à votre compte personnel, vous risquez de recevoir moins que ce à quoi vous avez le droit le jour où vous serez autorisé à toucher une pension.

À l'heure actuelle, il y a quelque 108 millions de dollars, si je ne m'abuse, qui n'ont pas répartis dans ce compte. On peut supposer qu'ils pourraient l'être afin d'être attribués aux cotisants à qui cela revient. Or cela n'a pas été fait, et ce chiffre ne cesse d'augmenter. Ce compte doit—

Le président: Comment monte-t-il?

M. Dye: Peut-être des chiffres illisibles sur une déclaration—

Le président: Des cotisations sans déclarations ce genre de choses?

M. Dye: —peut-être des chiffres qui sont inexacts ou qu'il n'y a pas de compte pour... quelqu'un qui dirait que son numéro est 1234, alors que c'est 1235, et ainsi l'ordinateur verserait cela à un compte en suspens.

Le montant figurant à ce compte à classer continue d'augmenter. Je pense que cela ne peut qu'inquiéter les parlementaires et les cotisants qui ainsi ne pourront toucher la pension à laquelle ils ont droit.

Le président: En un sens, les cotisations ne viennent pas des cotisants. Ce sont en général, les employeurs qui

[Texte]

remittance are usually the employers, deducting it at source. So the poor old contributor never knows whether it has been contributed or not, except that he gets a T-4 slip at the end of the year. That tells him it has been contributed, or it should tell him it has been contributed.

Mr. Dye: This is money that has been paid in. They do not know where to put it, in which account it should go. I think that is an accounting problem that should be resolved.

The Chairman: Do they have that with income tax as well?

Mr. Dye: Mr. Chairman, I do not know the answer to that question.

Ms Cheng: I believe there is a suspense account for taxpayers' remittances as well. The taxation department does make an effort to try to go through the suspense account and allocate it out to individuals. Then of course if an individual sees that the remittance schedule according to the tax department is different from their own records they can make inquiries and then they would have the ability to trace back.

The Chairman: As you may know, the odd person borrows other people's SIN numbers in order to work illegally in this country, so sometimes you wind up with remittances on the same SIN number from two or three sources. I am sure that causes some problems for the department.

Mr. Dye: I am sure any big system is going to have an amount of error too. It is a question of how much tolerance there could be for error.

• 1010

Mr. Nystrom: I wanted to ask Mr. Dye another question. Today is bank rate day in terms of the Bank of Canada. Around 2 p.m. today it may go up again, according to speculation. Have you done much work on how effectively and how efficiently the foreign reserves and the intervention in the money market by the Department of Finance and the Bank of Canada are being used?

Mr. Dye: We did a chapter on the foreign exchange operation. Our overall impression is that in terms of managing the foreign exchange itself—and not touching on Mr. Nystrom's dimension of the interest rate—the operation is generally considered to be good. There is room for improvement.

With respect to the interest rate, I do not think we have audited that and I am not competent to answer your question, but I have a man who is.

Mr. Nystrom: Good.

Mr. Dye: Can we have Mr. Paproski give perhaps a more informative answer to the member?

[Traduction]

versent ces montants, qui les déduisent à la source. Donc, le pauvre cotisant ne sait jamais si cela a été versé ou non. Sauf qu'il reçoit une T-4 à la fin de l'année. Il apprend donc alors ce qu'il a cotisé ou du moins il devrait l'apprendre.

M. Dye: C'est l'argent qui a été versé. Ils ne savent pas où le mettre, à quel compte le verser. C'est un problème de comptabilité, qui à mon avis devrait être résolu.

Le président: Est-ce la même chose pour l'impôt sur le revenu?

M. Dye: Monsieur, le président, je n'en sais rien.

Mme Cheng: Je crois qu'il y a également pour le règlement d'impôt un compte en suspens. Le ministère de l'Impôt s'efforce toutefois de l'examiner et de répartir les sommes au fur et à mesure. Ensuite, évidemment, si quelqu'un s'aperçoit que le bordereau de dépôt du ministère de l'Impôt ne correspond pas à ses propres dossiers, il est toujours possible de poser certaines questions et de retracer les versements.

Le président: Comme vous le savez peut-être, il arrive que des gens empruntent le numéro d'assurance sociale d'autres personnes afin de travailler illégalement si bien qu'il peut arriver que des dépôts soient faits de deux ou trois sources avec le même numéro d'assurance sociale. Je suis sûr que cela cause quelques problèmes au ministère.

M. Dye: Il est évident qu'un gros système ne peut éviter absolument un certain pourcentage d'erreurs. Il s'agit simplement de savoir quel pourcentage on doit tolérer.

M. Nystrom: Je voulais poser une autre question à M. Dye. C'est aujourd'hui que la Banque du Canada fixe le taux bancaire. Vers 2h, cet après-midi, il semble qu'il puisse encore monter. Avez-vous étudié l'efficacité, la rentabilité des réserves de devises étrangères et de l'intervention du ministère des Finances et de la Banque du Canada sur le marché monétaire?

M. Dye: Nous avons publié un chapitre sur les opérations de change. Notre impression générale est que, pour ce qui est de la gestion du change en tant que telle—et sans aborder la question des taux d'intérêt soulevée par M. Nystrom—cela semble de façon générale ne pas poser de problèmes. On peut évidemment toujours améliorer les choses.

Pour ce qui est du taux d'intérêt, je ne pense pas que nous ayons effectué de vérification là-dessus et je ne puis donc personnellement répondre à votre question, mais j'ai quelqu'un qui peut le faire.

M. Nystrom: Bien.

M. Dye: Pourrait-on demander à M. Paproski de donner un peu plus de renseignements?

[Text]

Mr. Dennis Paproski (Principal, Audit Operations Branch, Office of the Auditor General of Canada): No, indeed, we have not looked at the auditing of the Bank of Canada's monetary policy operations at all, although we have described in very general terms the linkages between monetary policy and exchange rate movements in a sort of environmental or contextual sense, but not an audit.

The Chairman: Yes, but have you looked at the amount of money it costs us to carry this \$13 billion or \$15 billion or \$17 billion a few weeks ago in foreign exchange reserves in terms of the difference that we might get on the interest on say American T-bills we hold as reserves as compared to what it costs us to borrow that money in the first place?

Mr. Paproski: Yes, the details are in the chapter on our estimates of the total costs of holding the equivalent debt. In other words, for every dollar in foreign exchange reserves, regardless of their form, there is an offsetting dollar of debt someplace. Some of that is denominated in Canadian dollars and some is denominated in foreign currencies. We have made estimates of the imputed cost of the Canadian portion of that debt, as well as the direct costs of the foreign denominated debt that offsets.

The Chairman: Can you put those figures on the record now for us today?

Mr. Paproski: They are in chapter 13 and they are in table 13.6.

Mr. Dye: Exhibit 13.6, on page 283 of our English version of the report. There is a summary there of the major costs associated with the foreign exchange operations.

Mr. Young (Gloucester): This is a connected issue. Just on the question of tax avoidance, there has been a lot of talk on the MST about the fact that there has been a lot of avoidance in various forms and so forth. Do you have any idea at all what would happen if 4,000 new tax collectors or auditors were put in place to take care of the tax system as it presently stands?

You had a figure you put forward in terms of what each new person can generate in terms of recovery. We are talking about up to 4,000 new people. With all the flaws there are in the MST but also dealing with other areas of tax avoidance, could you give us any kind of a ballpark figure as to what that would generate in terms of tightening up the existing system?

Mr. Dye: The only estimates I have are over on the income tax side and not on the federal sales tax side. The experience on the federal sales tax side is that for every dollar you spend on enforcement you... Now, there has to be a diminishing return, but—

Mr. Young: Sure.

[Translation]

M. Dennis Paproski (directeur principal, Direction générale des opérations de vérification, Bureau du vérificateur général du Canada): Non, en effet, nous n'avons pas examiné du tout la vérification de la politique monétaire de la Banque du Canada bien que nous ayons décrit de façon très générale les liens qui existent entre la politique monétaire et les mouvements de change en considérant plutôt l'environnement ou le contexte que la vérification.

Le président: D'accord, mais avez-vous examiné ce que nous coûtent ces 13, 15, ou 17 milliards de dollars de réserves en devises étrangères par rapport à ce que cela pourrait nous rapporter en intérêt sur des bons du Trésor américain que nous aurions en réserve, sachant surtout ce qu'il nous en coûte d'emprunter cet argent?

M. Paproski: Oui, les détails se trouvent dans le chapitre que nous avons publié sur notre estimation du total des coûts d'une dette équivalente. Autrement dit, pour chaque dollar de réserve de devises étrangères, sous quelque forme que ce soit, il y a un dollar de dette quelque part. Une partie est en devises canadiennes et une autre partie en devises étrangères. Nous avons estimé le coût imputé de cette dette en devises canadiennes ainsi que le coût direct de la dette que représentent les réserves de devises étrangères.

Le président: Pourriez-vous nous donner ces chiffres aujourd'hui?

M. Paproski: Ils se trouvent au chapitre 13, tableau 13.6.

M. Dye: Tableau 13.6, page 300 de la version française du rapport. Il s'agit du résumé des principaux coûts associés aux opérations de change.

M. Young (Gloucester): J'aurais une question connexe. À propos de l'évitement fiscal, on a beaucoup parlé de la taxe sur les ventes des fabricants comme source importante d'évitement. Avez-vous une idée de ce qui arriverait si 4,000 nouveaux percepteurs d'impôt ou vérificateurs étaient chargés de s'occuper du régime fiscal que nous connaissons actuellement?

Vous avez tout à l'heure indiqué ce que chaque nouveau percepteur pourrait récolter. On parle d'un maximum de 4,000 nouveaux employés. Malgré tous les défauts que présente la taxe sur les ventes des fabricants et en considérant les autres voies d'évitement fiscal, pourriez-vous nous donner en gros une idée de ce que tout ce personnel supplémentaire pourrait rapporter sans changer le système.

M. Dye: Les seules estimations que j'ai touchent l'impôt sur le revenu et non pas la taxe fédérale de vente. Pour ce qui est de la taxe fédérale de vente, pour chaque dollar que vous consacrez à la perception... Évidemment, il faut prévoir des résultats décroissants, mais...

M. Young: Bien sûr.

[Texte]

Mr. Dye: Certainly with the lack of enforcement or the significantly reduced enforcement on the FST side I think it is reasonable to expect that you would get an awful lot more than a dollar back for every dollar invested in enforcement. I do not know. I do not have an estimate. Perhaps the department has, but I do not know.

Mr. Young: Following up on a question that has already been put, the problem with tax avoidance is that if we are having as many problems with 75,000, give or take, clients in terms of the existing manufacturers sales tax, do we have any way of assessing what is going to happen to over 1 million clients? We talked about other auditors general with whom you may have had discussions, and I am sure none of them were able to explain how you would deal with the two-tier retail sales-tax situation, because as far as I know, this is a unique situation in Canada.

• 1015

Mr. Dye: Moving from 75,000 tax filers to perhaps 1.6 million will make an enormous difference in terms of administrative challenge. Just to know who they are is a big problem. Then to deal with them on a regular basis for collecting the tax, paying refunds, settling inventory holdings at the start of the system—that is a very big administrative challenge. It can be done. It is a matter of being prepared.

Mr. Young: The experts in this field are the provincial people. They have been at it for a long time, other than in Alberta and in the territories. I do not like to ask people to speculate, but with regard to timing, there have been questions about alternatives to moving on January 1, 1991. As an auditor, as a person who would have to be responsible for looking at how this is going to work, would not the status quo have some attraction until such time as a proper apparatus was put in place for the implementation of a new system like this?

This would mean bringing in 4,000 new people, many of whom undoubtedly will be recruited from provinces and would have previous experience, but there will also be a lot of new tax collectors. How can it be justified that we would be getting into the two-tiered system with all of the implications for avoidance and the difficulties in transition, when the government has admitted that it is having difficulties recruiting people? The timing is what I am getting at: January 1, 1991. From a practical administrative point of view, is not the status quo preferable to moving into a situation where there are going to be a lot of administrative problems?

Mr. Dye: The whole question of moving to a different concept, a different process, is a matter of political will and administrative work. However, I have not audited the process. I would merely be speculating. As to the date, it would depend upon your political perspective. I just do not have an answer for you. I am sorry.

[Traduction]

M. Dye: Il est certain que si la loi n'est pas respectée ou est mal respectée pour ce qui est de la taxe fédérale de vente, on pourrait récupérer beaucoup plus d'un dollar par dollar investi. Je ne sais pas. Je n'ai pas de chiffres. Peut-être que le ministère en a, mais je ne sais pas.

M. Young: Je reviendrai maintenant sur une question qui vous a déjà été posée: si nous avons déjà autant de problèmes d'évitement fiscal lorsque 75,000 personnes sont censées payer la taxe sur les ventes des fabricants, que peut-on attendre d'une situation où plus d'un million de personnes devront payer cette nouvelle taxe? On a parlé d'autres vérificateurs généraux avec qui vous auriez pu discuter de la question, et je suis certain qu'aucun d'entre eux n'a pu expliquer comment se sortir d'une situation de taxe sur les ventes de détail à deux paliers, car, si je ne m'abuse, cette situation n'existe qu'au Canada.

M. Dye: Si l'on passe de 75,000 à 1.6 million de déclarations de taxe, cela va faire une différence énorme pour l'administration. Pour commencer, il va être très difficile de savoir de qui il s'agit. Ensuite, il faudra les contacter régulièrement, percevoir la taxe, envoyer des remboursements, effectuer des inventaires avant de mettre en place le système, etc.: pour l'administration, ce sera un véritable défi à relever. Cela dit, c'est possible, il suffit d'être bien préparé.

M. Young: Pour ce genre de chose, les experts travaillent pour les provinces. À l'exception de l'Alberta et des Territoires, il y a longtemps qu'ils s'en occupent. En général, j'évite de demander aux gens de faire des prédictions, mais plusieurs personnes nous ont demandé s'il ne serait pas possible de changer la date du 1^{er} janvier 1991. Vous qui êtes vérificateur, qui allez être responsable du fonctionnement de ce système, ne pensez-vous pas que le statu quo peut sembler avantageux en attendant qu'on mette en place ce nouveau système?

Pour ce faire, il faudrait engager 4,000 personnes supplémentaires, beaucoup viendront sans doute des provinces et posséderont une certaine expérience, mais il y en aura d'autres qui percevront des taxes pour la première fois. Comment peut-on envisager de mettre en place un système en deux paliers, avec toutes les possibilités d'évasion et toutes les difficultés inhérentes à la transition que cela comporte, quand le gouvernement reconnaît avoir du mal à recruter du personnel? C'est la date choisie que je conteste, le 1^{er} janvier 1991. D'un point de vue purement pratique et administratif, est-ce que le statu quo ne serait pas préférable à une situation qui promet de gros problèmes administratifs?

M. Dye: Le système choisi est une affaire de volonté politique et de processus administratif. Cela dit, comme je ne l'ai pas étudié de façon approfondie, je dois me contenter de faire des suppositions. Pour l'instant, cela dépend de la démarche politique adoptée, et je n'ai pas d'autre réponse à vous donner, je suis désolé.

[Text]

Mr. Richardson (Calgary Southeast): It seems to me that there is a little more to it than a political perspective. In terms of avoidance, is not the GST system quite the opposite? Is it not designed for self-regulation? Would not the demand for credits cause less avoidance, drag some of these avoiders out of the woodwork, and produce less of an underground economy? Does not this system demand self-regulation? Would not businesses want to find a tax credit? Since it takes two to tango, would this not cause it to be more self-regulating, resulting in less avoidance than exists in the current system?

Mr. Dye: I am not sure of the existing state of absence of avoidance, and I am really not in a position to speculate on what might be the level of avoidance in a new system. I have read the argument that the new system will find some tax base that before has been under the table, and my accountant nature would suggest that this may be true. But I am merely speculating.

Mr. Richardson: I think it probably would.

Mr. Dye: Maybe, but as an auditor I cannot speculate. If I am going to inform your committee, I have to stick to what I know.

• 1020

Mr. Richardson: Mr. Chairman, I did not want the Auditor General to speculate. He said earlier that he had examined the other jurisdictions. Obviously in examining other jurisdictions, for example—

The Chairman: No, they have not done that.

Mr. Dye: Mr. Chairman, we have not made an audit of other jurisdictions. We have made ourselves aware of how some other jurisdictions got into the business and what some of the problems have been.

Mr. Richardson: Maybe you could tell us their experience.

Mr. Dye: I am speculating—and here I am saying I will not speculate—but it seems reasonable to me with less exemptions because we have 22,000 different special treatments. I do not know that there will not be 22,000 ten years from now; again, I would be wrong speculating. Perhaps if there are fewer exemptions, there is less room for avoidance.

Mr. Young: Just going back to the capacity to audit and so forth, looking at National Revenue, in your assessment of their capacity to deal with the job they have to do, are they able to perform at a level that is acceptable from a professional point of view as far as you are concerned in seeing that the Canadian taxpayers, individuals and corporations are paying the tax they should be? Do they have the capacity to do so? Are they doing the job properly?

Mr. Dye: Mr. Chairman, is the question on the excise side?

[Translation]

M. Richardson (Calgary Sud-Est): Il me semble que cela va au-delà de la perspective politique. Est-ce que la TPS n'est pas justement à l'opposé de l'évasion fiscale? Est-ce qu'elle n'a pas été conçue de façon à s'auto-réglementer? Est-ce que l'évasion fiscale ne sera pas découragée par la nécessité de demander des crédits, et est-ce que cela ne va pas diminuer l'économie clandestine? Est-ce que ce système ne suppose pas une auto-réglementation automatique? Les entreprises vont vouloir profiter des crédits prévus, n'est-ce pas? Puisqu'il faut être deux pour jouer ce jeu-là, ne pensez-vous pas qu'on va assister à une diminution de l'évasion fiscale grâce à une certaine auto-réglementation?

M. Dye: Je ne tiens pas à spéculer sur l'évasion fiscale, ni sur la situation actuelle, ni sur ce qui se produirait dans un nouveau système. Certains ont prétendu que le nouveau système permettrait de récupérer une partie de l'assiette fiscale qui, jusqu'à présent, disparaît sous la table, et ma formation de comptable me suggère que c'est peut-être vrai. Mais ce n'est que spéculation.

M. Richardson: À mon avis, c'est probablement vrai.

M. Dye: Peut-être, mais en ma qualité de vérificateur je ne peux pas me permettre de spéculer. Je suis là pour vous informer et je dois m'en tenir à ce que je sais.

M. Richardson: Monsieur le président, je n'ai pas demandé d'hypothèses au vérificateur général. Il a dit tout à l'heure qu'il avait étudié la situation d'autres pays. Ce faisant il a forcément—

Le président: Non, il ne l'a pas fait.

M. Dye: Monsieur le président, nous n'avons pas effectué de vérification dans d'autres pays mais nous nous sommes informés au sujet des procédures et des problèmes qui existent ailleurs.

M. Richardson: Vous pourriez peut-être nous faire part de cette expérience.

M. Dye: C'est une hypothèse, et j'ai dit que je ne voulais pas en faire, mais il me semble raisonnable de tirer cette conclusion puisqu'il y aura moins d'exemptions qu'actuellement avec nos 22,000 cas d'exemptions. Rien ne prouve qu'il n'y en aura pas 22,000 dans dix ans, mais encore une fois, je ne voudrais pas avancer d'hypothèse. Peut-être qu'avec moins d'exemptions il y aura également moins d'évasions fiscales.

M. Young: Je reviens à la capacité de vérification et en particulier au Revenu national. Vous pensez que compte tenu de sa capacité, ce service devrait pouvoir fonctionner de façon acceptable et s'assurer que les contribuables canadiens, et en particulier les sociétés, payent bien les taxes qu'elles sont censées payer. Est-ce que la capacité voulue existe? Est-ce que le travail est fait comme il doit l'être?

M. Dye: Monsieur le président, est-ce que vous faites allusion à la taxe d'accise?

[Texte]

Mr. Young: No, on the income tax side. We know they cannot do it on the MST side. They tell us that every day.

Mr. Dye: Mr. Chairman, I am trying to answer the question. I am having a little trouble because we are in the middle of an audit on enforcement. I suppose this should tell us how it is working. I was going to report it to Parliament next October.

My impression overall is that the tax department tries to do a good job. I have indicated that perhaps if they had more enforcement, they would collect a great deal more money.

The Chairman: They have a political problem at the same time.

Mr. Dye: Sure they do.

The Chairman: The more you beat them, the more citizens complain to the Members of Parliament.

Mr. Dye: Then it becomes a political problem for you.

The Chairman: That is right. That is how we got the taxpayers' bill of rights type of thing.

Mr. Dye: Then we paid a lot more in bad debts.

Mr. Young: It is easier to put on a surtax.

Mr. Dye: There are offsets to these things.

Mr. Young: It is a lot easier to deal with surtaxes and have us who pay, pay.

Mr. Dye: I am always reluctant, Mr. Chairman, to say a department is getting a seven out of ten or deserves an A-minus or something. We usually do not have a complete assessment of the whole thing and all its operations at any one point in time. A place like the tax department is vast. To be fair, I think that Canadians are being reasonably well served by our tax department.

Mr. Young: I was mainly concerned, Mr. Chairman, because of the influx of 4,000 new tax collectors into the system, whether the existing system has sufficient resources, both people and technical, to be able to do the job they already have a mandate to do.

Mr. Dye: Mr. Chairman, if they introduce 4,000 new tax collectors, I understand they are going to be on the GST side, not the income tax side.

Mr. Young: Exactly.

Mr. Dye: It remains to be seen, does it not, if indeed they decide to hire more people or indeed if a tax becomes a tax.

Mr. Young: Just as a last question, in terms of your own situation, do you feel you have the resources and the people required to do the job that Parliament has given you as a mandate?

[Traduction]

M. Young: Non, à l'impôt. Nous savons que pour la taxe d'accise c'est impossible, c'est ce qu'on nous répète chaque jour.

M. Dye: Monsieur le président, j'essaye de répondre à la question. Ce n'est pas facile parce que nous sommes justement en train de faire une vérification des opérations de perception. Cela devrait nous donner des indications sur la façon dont cela fonctionne. J'ai l'intention de déposer un rapport en octobre prochain.

D'une façon générale, j'ai l'impression que le service de l'impôt essaye de faire du beau travail. J'ai déjà dit qu'avec des services de perception plus importants, on pourrait percevoir beaucoup plus d'argent.

Le président: Mais en même temps, c'est un problème politique.

M. Dye: Absolument.

Le président: Plus les citoyens sont harcelés, plus ils se plaignent à leurs députés.

M. Dye: Et pour vous, cela devient un problème politique.

Le président: Précisément. C'est ainsi qu'on en est venu à une déclaration des droits des contribuables.

M. Dye: Ce qui nous a coûté beaucoup plus cher en dettes non recouvrables.

M. Young: C'est plus facile avec une surtaxe.

M. Dye: Il y a aussi des inconvénients.

M. Young: C'est beaucoup plus facile avec une surtaxe qui est payée par ceux d'entre nous qui payent.

M. Dye: Monsieur le président, j'hésite toujours beaucoup à noter les ministères, à décider qu'ils ont droit à 7 sur 10 ou moins. D'ordinaire nous n'évaluons pas la totalité d'une situation et l'ensemble des opérations à une période donnée. Le service de l'impôt est un service particulièrement vaste, et en toute justice, je crois que les Canadiens sont raisonnablement bien servis par ces services.

M. Young: Monsieur le président, ce qui m'inquiète le plus, c'est l'arrivée de 4,000 nouveaux percepteurs, et je demande si le système dispose de ressources suffisantes, ressources humaines et techniques, pour remplir un mandat qui existe déjà.

M. Dye: Monsieur le président, s'il y a 4,000 nouveaux percepteurs, je crois qu'ils s'occuperont de la TPS et non de l'impôt sur le revenu.

M. Young: Exactement.

M. Dye: Mais il reste à savoir n'est-ce pas, si l'on décide d'embaucher du personnel et même si la nouvelle taxe est adoptée.

M. Young: Une dernière question à propos de votre situation à vous, est-ce que vous pensez avoir les ressources et le personnel nécessaires pour vous acquitter du mandat qui vous a été donné par le Parlement?

[Text]

Mr. Dye: Yes, we have an adequate, not flush, budget. We can have adequate coverage. We get around the entire government every year to provide you with an opinion on the fairness of all the financial operations in terms of the public accounts. We give you an opinion every year and we can get around the entire system.

On the compliance side, I think we are giving fair coverage. When it comes to the value-for-money reports, which you see in our big green reports—last year it was green—those are cyclical. I am concerned. My predecessor, Mr. Macdonell, when getting the act established to add value-for-money auditing to the mandate of the Office of the Auditor General, left an impression with Parliament that it would be desirable for the audit office to get around to all departments and to give complete coverage of them—a story about each of them or an audit of each—to Parliament in the life of a Parliament.

We are not able to maintain that pace. We have some departments where we are getting up to too many years, above ten. It seems to me the way we are going now is with nine, eight, or seven years or something in that kind of coverage.

• 1025

Mr. D. Larry Myers (Deputy Auditor General of Canada): Seven or eight.

Mr. Dye: I think we are producing enough information for Parliament to keep MPs busy with our reports, but around the entire government we are not getting value-for-money activities in the life of a Parliament. There is slippage. It would take a great deal more resources to get around the whole place in five years. We get around to all the Crown corporations in five years, but with the government the cycle is slower.

Mr. Young: Is there anything you are trying to get that you cannot get these days? Are there any doors still locked to the Auditor General?

Mr. Dye: In my last report I have left open to Parliament the option to assist us in getting the information regarding Petrofina and ministerial travel. I have left you with a little challenge; I have heard silence.

Mr. Young: Does anybody audit your operation?

Mr. Dye: Yes, indeed. I suppose our ultimate auditors are yourselves. We report to you—

Mr. Young: We are all so timid, though.

Mr. Dye: I also have a firm of chartered accountants who come in annually and do a NAT test and compliance

[Translation]

M. Dye: Oui, nous avons un budget qui, sans être princier, est suffisant. Chaque année nous parcourons tout le gouvernement pour pouvoir vous dire dans quelles mesures les opérations financières des comptes publics nous semblent équitables. Chaque année nous produisons une opinion à votre intention et nous faisons le tour de tout le système.

Nous sommes assez efficaces quand il s'agit d'évaluer le recouvrement. Quant aux rapports sur l'optimisation des ressources, nous les produisons périodiquement, ils font partie de nos grands rapports verts, du moins l'année dernière étaient-ils verts. C'est une préoccupation. Quand on a demandé au Bureau du vérificateur général d'ajouter une nouvelle dimension à ses opérations, celle de l'optimisation des ressources, mon prédécesseur, M. Macdonell, a donné au Parlement l'impression qu'il serait bon de passer en revue tous les ministères, d'effectuer une étude ou une vérification de chaque ministère, en l'espace d'une législature du Parlement.

Nous ne sommes pas en mesure de maintenir ce rythme. Dans certains cas, le tour des ministères ne revient pas avant de nombreuses années, plus de dix. À l'heure actuelle, il s'écoule neuf, huit ou sept ans entre chaque évaluation.

M. D. Larry Myers (Vérificateur général adjoint du Canada): Sept ou huit.

M. Dye: Je pense que nous fournissons aux députés suffisamment d'information pour les tenir occupés, mais nous ne pouvons pas passer en revue l'ensemble du gouvernement du point de vue de l'optimisation des ressources, pas en l'espace d'une législature. Nous perdons du terrain. Nous aurions besoin de ressources bien plus importantes pour faire le tour en l'espace de cinq ans. Nous réussissons à passer en revue toutes les sociétés de la Couronne en l'espace de cinq ans, mais quand il s'agit du gouvernement, le cycle est plus lent.

M. Young: En ce moment, est-ce qu'il y a des informations que vous avez du mal à obtenir? Est-ce qu'il y a encore des portes dont on a interdit l'accès au vérificateur général?

M. Dye: Dans mon dernier rapport, j'ai invité le Parlement à nous aider à obtenir des informations sur Petrofina et sur les déplacements ministériels. C'est un petit défi que je vous ai invité à relever, que vous avez accueilli par le plus grand silence.

M. Young: Est-ce que vos opérations font l'objet d'une vérification?

M. Dye: Absolument. En fin de compte, nos vérificateurs, c'est nous-même. Nous vous soumettons des rapports. . .

M. Young: Mais nous sommes tous si craintifs.

M. Dye: Une firme de comptables agréés vient chaque année effectuer un test de comptabilité et une vérification

[Texte]

audit. I am pleased to report to you that we get a clean certificate every year.

The Chairman: They audit value-for-money, too?

Mr. Dye: We have never had a value-for-money audit. We are quite prepared to have one should the government decide it would be valuable. There was a proposal to have one in 1980; preliminary work and a survey were both done. If I recall correctly, there was a consortium of five firms in to do the work. Their preliminary service was about \$60,000 or \$70,000. The estimated fee to get the job done was \$600,000 more. I said it was too much taxpayers' money. Several years later I instead did a cost-effectiveness review, calling in consultants to work jointly with my own staff.

The Chairman: Next is Mr. Langdon.

Mr. Langdon (Essex—Windsor): I would like to go back to the question of the Exchange Fund Account. It struck me that one of the most interesting and overlooked things in monetary policy in this jurisdiction in recent years has been the tremendous increase in the assets of the Exchange Fund Account. You have figures listed in chapter 13, Exhibit 13-4, which show the actual foreign currency holdings, as opposed to the IMF holdings and the gold holdings, going up from a total of about \$1.3 billion in 1986 to virtually 10 times that in 1989—\$12.5 billion. As I have been able to follow things since then, this acceleration in the Exchange Account has continued.

Part of your task as Auditor General is to assess whether government programs, government activities, are being used to fulfil the mandate given to them by Parliament. My sense is that the mandate of an Exchange Fund Account—and you talk about it in your chapter—is to even out the ups and downs of the Canadian dollar so that you do not have shocks taking place in terms of massive increases or massive decreases. I can see that is a sensible mandate.

I guess I find it very difficult to see a tenfold increase in the foreign currency assets of the Exchange Fund Account as something that represents the simple process of balancing out the ups and downs of the Canadian dollar. Are we in fact here talking about this exchange fund account operating according to the mandate that you feel it has from Parliament for its operations, or is it operating according to some other mandate, which is quite different?

• 1030

Mr. Dye: Mr. Chairman, your colleague poses a challenging question to me. In paragraph 1.1.34, which is the Auditor General's chapter at the front of the annual report, I raise questions. Are foreign exchange reserves too high, too low or just right? What are the overall net costs of holding such reserves? What are the assumed benefits?

[Traduction]

de conformité. Je suis heureux de pouvoir vous dire que chaque année nous obtenons un certificat de bonne conduite.

Le président: Est-ce qu'ils effectuent également une vérification du point de vue de l'optimisation des ressources?

M. Dye: Nous n'avons jamais eu de vérification de ce genre. Cela dit, si le gouvernement décide que ce serait utile, nous sommes tout à fait prêts à en subir une. On l'avait proposé en 1980, et des travaux préliminaires à une étude avaient été effectués. Si je me souviens bien, le travail avait été confié à un consortium de cinq firmes. Ces travaux préliminaires s'étaient élevés à 60 ou 70,000\$. Pour mener la tâche à bien, on prévoyait 600,000\$. À l'époque, j'avais décidé que c'était trop cher pour le contribuable et quelques années plus tard j'ai fait venir des experts-conseils qui, en collaboration avec mon propre personnel, ont effectué une étude de rentabilité.

Le président: La parole est à M. Langdon.

M. Langdon (Essex—Windsor): Je reviens à la question du Compte du fonds des changes. Ce qui me frappe, c'est qu'un des éléments les plus intéressants et les plus négligés de la politique monétaire de ces dernières années a été l'augmentation considérable du Compte du fonds des changes. Au chapitre 13, pièce 13-4, vous faites l'inventaire des monnaies étrangères en compte, par opposition aux fonds du FMI et à l'or, et vous dites que ce fonds a pratiquement décuplé, passant de 1,3 milliard en 1986 à 12,5 milliards en 1989. Et d'après ce que j'ai pu voir, depuis l'année dernière, cette augmentation du Compte des changes se poursuit.

En tant que vérificateur général, il vous appartient de vérifier que les programmes et les activités du gouvernement sont bien conformes au mandat du Parlement. Je considère que le Compte du fonds des changes, dont vous parlez dans votre chapitre, est là pour amortir les mouvements du dollar canadien, pour éviter les chocs que pourraient provoquer des augmentations ou des diminutions massives. Je considère que c'est tout à fait justifié.

Dans ces conditions, j'ai du mal à croire qu'il soit vraiment nécessaire de décupler nos avoirs en devises étrangères pour amortir les hauts et les bas du dollar canadien. Pensez-vous que ce Compte du fonds des changes remplit bien le mandat qui lui a été donné par le Parlement ou bien s'en est-il écarté pour accomplir un tout autre mandat?

M. Dye: Monsieur le président, votre collègue me pose une question qui est loin d'être simple. Au paragraphe 1.1.34, le chapitre du vérificateur général, au début du rapport annuel, je pose un certain nombre de questions. Je me demande si les réserves en devise étrangère sont trop élevées, trop faibles ou juste au bon niveau?

[Text]

What are the real benefits? Are reserves really necessary for intervention? Is intervention itself necessary? Are the high costs of holding gold justified? Is the rationale for restricting the currencies in which reserves and foreign debt are held correct and appropriate? And what is the cost?

All of these are linked in some way, I think, to the question that is being posed with respect to mandate. The mandate I think does not answer those questions for those who must administer the fund, because we did not know what the operational specifics would be of the mandate. We have sort of stuck to our administrative knitting.

Now, perhaps Mr. Paproski can be more specific than I on the question.

Mr. Paproski: The audit concerned itself with the management of the operations, not of the forces that drive the operations, or manage the foreign exchange operations in this case. Take as givens the government's and previous government's policy with respect to what they call a managed floating exchange rate.

Mr. Langdon: A dirty float, in short.

Mr. Paproski: It has been called that. The intervention activity, when there are upward pressures on the Canadian dollar arising from whatever other sources will generate intervention when there is upward pressure, will generate increases in reserves. We have observed that and we have asked that given the increase in reserves, how best might the managers handle foreign exchange reserves and the offsetting liabilities of debts associated with it.

That is all we have done. We have not argued that a phoney exchange rate is good, bad, or indifferent, or that intervention is effective, efficient, or economical. We have looked only at the operations, given what has been thrown up by the transactions.

Mr. Langdon: I guess my question is slightly different. It is a question that has to do with what strikes me as really the questionable fact that you would see a massive increase in these foreign exchange holdings, which necessarily have to be held, by the nature of foreign exchange holdings, in a relatively liquid form.

Does it in fact make sense for us to have these kinds of massive increases in holdings that we will not be able to get very much of a rate of return from because they are forced to be relatively liquid? Would it not make sense to in fact follow much less of a dirty float, one that in short follows the original mandate, as I understand it, a mandate that says this fund is to balance out the ups and downs in the dollar's progress but not to fundamentally

[Translation]

Combien nous en coûte-t-il en tout pour entretenir ces réserves? Quels en sont les avantages théoriques? Quels en sont les avantages réels? Est-ce que ces réserves sont absolument nécessaires en cas d'intervention? Est-ce que l'intervention est nécessaire? Est-ce que les réserves d'or, qui coûtent très cher à entretenir, sont justifiées? Est-ce que les critères qui nous servent à déterminer quelles devises nous devons garder en réserve et quelle dette étrangère nous devons conserver sont justes et appropriés? Combien nous en coûte-t-il?

D'une façon ou d'une autre, toutes ces questions me semblent liées à ce que vous venez de dire au sujet du mandat. Pour ceux qui sont chargés d'administrer le fonds, le mandat ne constitue pas une réponse suffisante à toutes ces questions. En effet, lorsque le mandat a été préparé, les détails opérationnels n'étaient pas connus. D'une certaine façon, nous n'avons pas pris de risques.

Maintenant, peut-être que M. Paproski pourra vous donner d'autres détails.

M. Paproski: La vérification a porté sur la gestion des opérations et non sur les forces qui régissent ces opérations ou qui, dans ce cas, administrent les opérations de change étrangères. On prend pour acquis la politique du gouvernement actuel et de ceux qui l'ont précédé quant à ce qu'ils appellent la gestion du taux de change flottant.

M. Langdon: Il flotte en eaux troubles.

M. Paproski: Certains l'ont prétendu. Les interventions quand certains facteurs forcent le dollar canadien à la hausse, provoquent une augmentation des réserves. C'est ce que nous avons observé, et nous nous sommes demandé comment, avec cette augmentation des réserves, les administrateurs pourraient gérer les réserves en devises étrangères et les passifs qui s'y associent et qui constituent un facteur compensatoire.

C'est tout ce que nous avons fait. Nous n'avons pas prétendu qu'un taux de change artificiel était une bonne chose, une mauvaise chose ou ni l'un ni l'autre, ou encore que l'intervention était un moyen efficace, efficient ou économique. Nous nous sommes contentés d'observer les opérations, à la lumière des répercussions des transactions.

M. Langdon: C'est sur un plan un peu différent que je posais cette question. Je me demande vraiment si cette augmentation considérable des réserves de devises étrangères est justifiée, d'autant plus que par sa nature il s'agit surtout de liquidités.

Est-ce que nous avons vraiment intérêt à conserver de telles réserves sur lesquelles nous ne pourrions pas gagner grand-chose puisqu'elles sont forcément sous forme relativement liquide? Est-ce qu'il ne vaudrait pas mieux s'écarter de ces eaux troubles et nous rapprocher du mandat d'origine, mandat qui, si j'ai bien compris, prévoit que ce fonds sert à compenser les hauts et les bas du dollar sans chercher à manipuler sa valeur, compte tenu

[Texte]

fly in the face of what should be happening to the value of the dollar, given the extremely high rate of interest in this country?

Mr. Dye: Chairman, your colleague is posing questions that are very much of a policy nature and that I am really unable to answer satisfactorily for you.

The Chairman: I was just wondering, can you give us some indication, though? You are dealing with other countries all the time. Other countries have large, in some cases very, very large, floating exchange or foreign exchange holdings. You know, at one time when we were down around \$3 billion or something of this nature, I was really concerned that any kind of a run on our dollar or any demand for payment of bonds or so on would leave us in pretty bad shape. I was wondering is you had any thought about other countries and how they operate.

• 1035

Mr. Dye: I am going to ask Mr. Paproski to assist me on this answer. But just reflecting on the previous question that was posed in terms of liquidity, the exchange fund contains more than just liquid assets; it also contains gold and all kinds of back-up assets. We are really looking at \$33 billion worth of potential capability to shore up the situation and that is calling down these rights and standbys that we have established. So liquidity is a much smaller part of that.

Mr. Langdon: But I am focusing on the liquidity issue, because it does have audit implications in terms of rates of return.

Mr. Dye: Yes, I understand that. I will ask Mr. Paproski whether we have knowledge of other countries. I do not know how other countries design their financial safety nets and he would know that better than I.

Mr. Paproski: The situation of information given to legislatures in other countries is, in general, much more restricted than it is here. You could not obtain the same information from the Exchequer in the United Kingdom as we have obtained from the Department of Finance and from the Bank of Canada.

We did speak to people in the Exchequer and in the Bank of England and they do have a more aggressive stance on investing their reserves. They even hold EDC bonds and they aim for a high yield on those funds that they perceive are not required for immediate intervention purposes.

This was one of the points we raised in the chapter, as you probably noted. One of the critical issues is how much is needed today, tomorrow and in the short, medium and long terms, as you suggest.

The Bank of Canada, with the Department of Finance, is working on examining this issue more closely, with the

[Traduction]

du taux d'intérêt qui est excessivement élevé à l'heure actuelle?

M. Dye: Monsieur le président, votre collègue pose des questions qui relèvent nettement de la politique et auxquelles je ne saurais répondre.

Le président: Mais pourriez-vous nous donner une indication, vous avez des rapports constants avec d'autres pays. Parmi eux, certains ont des réserves de devises étrangères ou des réserves flottantes considérables. Il est arrivé que notre fonds descende à 3 milliards de dollars, quelque chose de cet ordre, et à l'époque je m'étais dit qu'en cas de course sur notre dollar ou encore si on exigeait le remboursement de certaines obligations, nous risquions d'avoir de grosses difficultés. Comment les choses se passent-elles dans d'autres pays, qu'en pensez-vous?

M. Dye: Je vais demander à M. Paproski de m'aider à répondre. Mais pour revenir à ce que vous avez dit des liquidités, le fonds des changes ne renferme pas uniquement des biens liquides. Il contient également de l'or et toutes sortes d'actifs. Il s'agit d'un potentiel de 33 milliards de dollars, qui est prêt à étayer une situation donnée et qui constitue tout un système de sauvegarde. En fait, les liquidités représentent une faible proportion.

M. Langdon: Mais si je parle des liquidités, c'est qu'aux fins de la vérification du point de vue du taux de rentabilité, c'est significatif.

M. Dye: Oui, je comprends bien. Je vais demander à M. Paproski si nous savons ce qui se passe dans d'autres pays. Je ne sais pas comment les autres organisent leur filet de sécurité financier; il doit savoir cela mieux que moi.

M. Paproski: Dans beaucoup d'autres pays, les informations communiquées aux législatures sont beaucoup plus restreintes ici. Au Royaume-Uni, il serait impossible d'obtenir de l'Échiquier les informations que nous avons réussi à obtenir ici du ministère des Finances et de la Banque du Canada.

Nous avons discuté avec des gens de l'Échiquier et de la Banque d'Angleterre, qui nous ont dit qu'ils étaient beaucoup plus actifs en ce qui concerne l'investissement des réserves. Ils détiennent même des obligations EDC et, lorsqu'ils ne prévoient pas d'interventions immédiates, ils essaient même d'obtenir des taux plus élevés pour ces fonds.

Vous avez dû observer que c'est une des questions que nous avons soulevée dans ce chapitre. Ce qui est critique, c'est de déterminer de combien on aura besoin aujourd'hui, demain et à court, moyen et long terme, vous l'avez dit vous-même.

En collaboration avec le ministère des Finances, la Banque du Canada étudie cette question très

[Text]

proviso and the constraint that a lot of the holdings of reserves are determined by policies, including G-7 and others, that are beyond the capacity of managers to get involved with. They do not manage the policies that drive the underlying conditions giving rise to intervention or non-intervention.

Mr. Dye: Mr. Chairman, may I just add to the answer, because this might be helpful.

Your colleague is inquiring about the high cost, given high interest rates. In volume 1 of the Public Accounts I have marked table 1.4, which shows the cost of financing the part of our national debt that was related to foreign exchange operations was \$6.4 billion in 1987, \$7.1 billion in 1988, and \$5.7 billion in 1989. That is what we are talking about, in terms of impact and in terms of the foreign exchange cost.

The Chairman: That is borrowing the money.

Mr. Dye: Yes, related to foreign exchange.

The Chairman: But there is an offset interest.

Mr. Dye: Yes, that is true.

The Chairman: Is there any cost at all? Is the cost not the marginal difference between the interest rate you pay for the money and the interest rate you receive for the money? That is really last year's marginal cost at \$178 million.

Mr. Dye: Plus the gains and losses on trading.

The Chairman: Yes. That is really your cost, because these are obviously liquid assets. If you wanted to obtain the amount of the country's net debt, would you subtract foreign exchange assets from liabilities to obtain the net debt? If you were going to cash out the joint, you would sell the assets and pay off the liabilities.

Mr. Dye: Fair enough, Mr. Chairman, I think your assumptions are correct. If you look at exhibit 13.6 on page 283 of the English version, you can see that the revenues, expenses and costs in the Consolidated Revenue Fund are taken into account and that costs are decreasing.

The Chairman: Yes.

Mr. Dye: Net costs have been decreasing from \$839 million to an estimated \$178 million. That is an number containing some assumptions.

Mr. Langdon: But that is not exactly surprising, given a period in which you have seen this tenfold increase in the amount of money that is available for at least some rate of return on interest.

• 1040

Let me lay it out quite frankly. I think these foreign exchange reserves have accumulated not because of any conscious view on the part of government, the Department of Finance, or the Bank of Canada that we need more foreign exchange reserves in order to be able

[Translation]

attentivement, étant bien entendu que certaines restrictions sont déterminées par les politiques, y compris les politiques relatives au G-7, qui échappent au contrôle des administrateurs. Ce ne sont pas eux qui sont responsables des politiques qui servent à déterminer les cas d'intervention ou de non-intervention

M. Dye: Monsieur le président, permettez-moi d'ajouter un détail qui pourra vous être utile.

Votre collègue s'interroge sur le coût élevé de ces réserves, du fait des taux d'intérêt qui sont très élevés. Dans le volume 1 des comptes publics, vous trouverez le tableau 1.4 qui démontre que le financement de la portion de notre dette nationale attribuable aux opérations devises étrangères s'est élevé à 6,4 milliards en 1987, 7,1 en 1988 et 5,7 en 1989. Ces chiffres vous donnent le coût exact de nos réserves en devises étrangères.

Le président: Pour emprunter cet argent.

M. Dye: Oui, en devises étrangères.

Le président: Mais il y a un intérêt qui compense.

M. Dye: Oui, c'est vrai.

Le président: Est-ce que cela coûte quelque chose en fin de compte? Est-ce que le coût n'équivaut pas à la différence marginale entre le taux d'intérêt que vous payez et le taux d'intérêt que vous recevez? En fait, l'année dernière le coût marginal s'est élevé à 178 millions de dollars.

M. Dye: Plus les gains et les pertes sur les transactions.

Le président: Oui. Voilà donc nos coûts, puisque de toute évidence il s'agit de liquidités. Pour déterminer la dette nette du pays, faut-il soustraire les devises étrangères des passifs? En cas de liquidation vous vendriez les actifs et vous rembourseriez les passifs.

M. Dye: C'est juste, monsieur le président, vos suppositions sont exactes. À la page 300 de la version française, dans le tableau 13.6, vous constatez que les coûts et revenus associés au Trésor entrent en ligne de compte et que ces coûts diminuent.

Le président: Oui.

M. Dye: Les coûts nets sont passés de 839 millions de dollars à une somme évaluée à 178 millions de dollars. Ce chiffre suppose un certain nombre d'hypothèses.

M. Langdon: Mais ce n'est pas particulièrement surprenant puisqu'il s'agit d'une période où les sommes en cause ont décuplé, des sommes dont une partie au moins produit des intérêts.

Je vais vous expliquer les choses avec franchise. À mon avis, si ces réserves se sont accumulées, ce n'est pas à la suite d'un effort conscient du gouvernement, du ministère des Finances ou de la Banque du Canada, ce n'est pas parce qu'on a jugé avoir besoin de réserves en devises

[Texte]

to manage our currency. Rather, this is one of the costs of trying to keep our dollar relatively fixed vis-à-vis the U.S. dollar and at the same time trying to run a massive differential between our interest rates and those of the United States. This leads to a tremendous inflow of extra capital, some of which the Bank of Canada in effect sterilizes by putting it into this foreign exchange account where its impact on the rest of the economy, in terms of expansion of the money supply, is relatively limited.

I think that is what has happened. Are we as a country not absorbing a major cost from the combination of two incompatible policy goals—the attempt to run extremely high interest rates and the attempt to stabilize the dollar vis-à-vis the United States?

Mr. Dye: I do not know how often the Department of Finance asks how much we need in our exchange fund reserves. I do know that because we published a chapter on this, it is a matter of considerable interest to them that we are trying to make parliamentarians aware of the implications of foreign exchange operations.

With respect to Mr. Langdon's other questions as to relative interest rates and that type of thing, I regret that I have not audited this and I am not competent to comment on it. It is a matter of policy. I am merely an auditor.

Mr. Langdon: Can I have one last comment?

The Chairman: I almost totally agree with what you are saying, but I think you have gone as far as you can get with this witness.

Mr. Langdon: Actually, I wanted to thank Mr. Dye for putting this chapter into his report. It is the first time in my experience that foreign exchange reserves had some focus put on them. I commend you for that. I hope this will be a continued focus of your operations.

Mr. Dye: It will be. We have been interested in watching the government's reaction to decreasing the reserves.

The Chairman: I think we all want to know what is the cost of a monetary policy that is supposed to be an anti-inflation policy. Also, where we are going with all this?

Mr. Richardson: Obviously crystal-ball gazing is not an exact science.

I would like to ask about some of your cost estimation methods and hypotheses in previous reports. Before I go to that I want to comment on something Mr. Nystrom said earlier. He was commenting on the reference in your report to closing the loophole that allowed manufacturing companies to avoid the manufacturers sales tax by setting up marketing companies. Do you think replacement of the MST with a GST would de facto close that loophole?

[Traduction]

étrangères plus importantes pour administrer notre propre monnaie, mais plutôt parce que cela nous permet de maintenir plus ou moins notre position par rapport au dollar américain tout en essayant de nous accommoder de l'énorme différence qui existe entre nos taux d'intérêt et ceux des États-Unis. Cette situation provoque une arrivée de capitaux considérables, des capitaux que la Banque du Canada stérilise en partie en les versant à ce Compte du fonds des changes. C'est une façon de limiter relativement l'expansion des devises étrangères et leur impact sur le reste de l'économie.

C'est probablement ce qui s'est passé. En effet, notre pays n'absorbe-t-il pas des coûts considérables en essayant de concilier deux politiques incompatibles: le maintien de taux d'intérêt excessivement élevés et la tentative de stabiliser le dollar par rapport au dollar américain?

M. Dye: Je ne sais pas si le ministère des Finances demande fréquemment combien d'argent il nous faut dans le fonds des changes; ce que je sais, parce que nous avons publié un chapitre sur cette question, c'est qu'il tient absolument à ce que nous expliquions aux parlementaires les implications des opérations de change.

Quant aux questions de M. Langdon sur les taux d'intérêt relatifs, etc, n'ayant pas effectué de vérification sur cette question, je dois avouer que je ne me sens pas compétent pour y répondre. Cela relève de la politique; je ne suis qu'un vérificateur.

M. Langdon: Une dernière observation?

Le président: Je suis pratiquement entièrement d'accord avec vous, mais je pense que vous avez vraiment fait le tour de la question avec ce témoin.

M. Langdon: En fait, je voulais remercier M. Dye d'avoir inclus ce chapitre dans son rapport. Que je sache, c'est la première fois qu'on s'intéresse aux réserves en devises étrangères. Je vous en félicite. J'espère que dorénavant vous vous pencherez régulièrement sur ces questions.

M. Dye: Certainement. Nous aimerions beaucoup savoir ce que le gouvernement penserait d'une diminution de ses réserves.

Le président: Nous aimerions tous savoir quels sont les coûts de cette politique monétaire qui est censée avoir des effets antiinflationnistes. D'un autre côté, où tout cela va-t-il nous mener?

M. Richardson: L'art de la boule de cristal n'est pas une science exacte.

Je vais vous poser des questions sur vos méthodes d'évaluation des coûts et sur certaines hypothèses de vos rapports précédents. Mais auparavant, je reviens à ce que M. Nystrom a dit tout à l'heure. Il parlait de la possibilité de supprimer l'échappatoire qui permet aux manufacturiers d'éviter la taxe de vente sur la fabrication en créant des compagnies de commercialisation. Pensez-vous qu'il suffirait de remplacer la taxe sur la fabrication par une TPS pour supprimer cette échappatoire?

[Text]

[Translation]

• 1045

Mr. Dye: I think that is the response of the Department of Finance. They believe the implementation of the GST is the solution to the loopholes.

Mr. Richardson: In the observations, you are getting into follow-up recommendations. In 1987 you reviewed duty remission programs. One of the things you suggested was that these duty relief programs involved several billion dollars. In the 1989 report, you say on page 565:

the Department's view that remission programs have been or will be terminated; that the value of tariff remissions will be reduced from \$1 billion to \$50 million to \$100 million

I am not interested so much in their estimations that it will be reduced from \$1 billion to \$50 million or to \$100 million. You are suggesting that these relief programs cost several billion when finance in fact is saying that it is \$1 billion. I am asking you, because it does not seem to be the first time that your estimates vary considerably from those of the government. We have had before us here recently people from the finance department talking to us about pension reform in a technical paper.

In your 1988 report, you indicated that pension reform compliance costs for employers would amount to \$330 million. When we had the finance officials here recently, they said that their estimates would be in the order of \$60 million to \$70 million. I would just like to get a general view from you as to how you explain these differences. Are your cost estimates accurate? Are the hypotheses you use generally reasonable?

Mr. Dye: We go to great trouble to make sure that what we report to Parliament is reasonable, fair, and indeed accurate, if accuracy can be achieved. Any figures we have reported to Parliament have been agreed upon with the department. It is usually their number we report to you. Where there are differences, if they do exist, they would have been described in the department's rebuttal, if you will, to our findings.

There are occasions where we do not have agreement. We set those out in our report to you. We are prepared to get into an expert versus expert debate on how one calculates these things. My general observation is that departments generally like to provide a range, giving the best news and the worst news, the whole scenario. They report the bottom of the range. We might take a more realistic view.

M. Dye: Je pense que c'est la réponse du ministère des Finances. Le ministère estime que l'application de la TPS est la solution aux échappatoires.

M. Richardson: Dans vos observations, vous parlez de suivi. En 1987, vous avez examiné les programmes de remises de droits. Vous avez laissé entendre, entre autres, que ces programmes de remises totalisaient plusieurs milliards de dollars. Dans votre rapport de 1989, vous avez dit ce qui suit à la page 606:

Comme conséquence, selon eux (le Ministère), on aura mis fin ou mettra fin aux programmes de remises; la valeur des remises de tarif sera réduite d'un milliard à quelque cinquante ou cent millions de dollars par année. . .

Ce qui m'intéresse, ce n'est pas tellement la réduction qu'on prévoit de un milliard à cinquante ou cent millions de dollars. Vous estimez que ces programmes de dégrèvement tarifaire coûtent plusieurs milliards de dollars, alors que pour sa part, le ministère des Finances, affirme qu'ils en coûtent un milliard. Je voudrais bien savoir ce qu'il en est. En effet, il me semble que ce n'est pas la première fois que vos estimations diffèrent sensiblement de celles du gouvernement. Récemment, nous avons accueilli ici des représentants du ministère des Finances qui nous ont présenté un document technique sur la réforme des pensions.

Dans votre rapport de 1988, vous avez mentionné que les coûts d'administration des employeurs liés à la réforme des pensions se chiffraient à 330 millions de dollars. Or, les fonctionnaires du ministère des Finances qui ont témoigné récemment ont déclaré que, d'après leur calcul, ces coûts seraient de l'ordre de 60 à 70 millions de dollars. Je voudrais que vous m'expliquiez de façon générale comment vous expliquez ces différences. Vos estimations de coût sont-elles exactes? Vous fondez-vous sur des hypothèses généralement admises?

M. Dye: Nous faisons tout pour nous assurer que les renseignements que nous communiquons au Parlement sont adéquats, justes et exacts, pour autant qu'on puisse en vérifier l'exactitude. Tous les chiffres qui figurent dans notre rapport au Parlement ont été agréés par le ministère. Généralement, ce sont les chiffres du ministère que nous employons. Lorsqu'il y a des différences, le ministère a le loisir de réfuter nos chiffres dans ses propres documents.

Il arrive que nous ne soyons pas d'accord. Le cas échéant, nous mentionnons ces divergences d'opinion dans notre rapport au Parlement. Nous sommes tout à fait disposés à engager un débat d'experts sur les méthodes de calcul utilisé. D'après mon expérience, les ministères aiment bien fournir une fourchette de données allant des meilleures aux pires. En l'occurrence, ils vous ont communiqué les chiffres inférieurs de la fourchette. Pour notre part, nous avons sans doute adopté une attitude plus réaliste.

[Texte]

You see this in manpower training all the time. Ministers are advised a project will create 20,000 jobs. The bottom of the range might be 178 and there is a potential of 20,000. The department likes 20,000. We would probably try to be more realistic. I can assure Parliament that any estimate—

The Chairman: It may be 178 and it may be 200.

Mr. Dye: We are using state-of-the-art methodologies attested to by experts in their field and we have those challenged by other experts. I am confident that where we make an estimate, it is our best piece of information that we can give to you with all the rigour that we can provide, which is considerable.

Mr. Richardson: Fair enough. Thank you.

Mr. Gagliano (Saint-Léonard): Mr. Dye, going back to tax collection and your apprehension of the new system, right now we have one tax auditor for deduction at source, one tax auditor for federal sales tax or excise tax, and one tax auditor for income tax. As a matter of fact, I think we have two departments: taxation and excise and sales tax.

I was wondering in your audit if you look at the possibility, for example, instead of having three branches, of having one tax auditor who goes in and audits the books, whether it is payroll, federal sales tax, next year's GST or income tax. Would that be more efficient? I do not know. I would like to hear from you.

Mr. Dye: Chairman, I have not done a review of any proposals of looking at whether all these tax collection assessment processes be combined into one by an all-purpose tax assessor auditor. I do not know the answer to your question. I can tell you, though, that our auditors believe there are quite different cultures represented in collecting income tax, personal taxes, and, in retail or to-be retail, manufacturing-level taxes. It is a different kind of person who does the work. I cannot provide to you all the characteristics of this different culture, but I am told it is a different type of business.

• 1050

Ms Cheng: In our chapter we made reference to several aspects of challenges with respect to administering the GST, one of which has to do with coordinating with other organizations. We suggested that the revenue department look to some other organizations that might have experience in dealing with large revenue systems, or in trying to coordinate with them so that they could minimize the burden on taxpayers. The ones we mentioned are in paragraphs 18.41 through to 18.43 on page 371 of the annual report. We talked about the

[Traduction]

C'est le genre de chose que l'on constate tout le temps en matière de formation de la main-d'oeuvre. On dit aux ministres qu'un projet donné va créer 20,000 emplois. Or, la fourchette peut aller de 178 à 20,000. Or, le ministère retiendra sans doute 20,000. Pour notre part, nous essayons sans doute d'être plus réalistes. Je peux vous donner l'assurance que toutes les estimations. . .

Le président: Ce peut être 178 et ce peut être 200.

M. Dye: Nous utilisons des méthodes de pointe confirmées par des experts dans le domaine et nous les soumettons à la critique d'autres experts. Par conséquent, lorsque nous avançons un chiffre, il s'agit du meilleur renseignement que nous puissions vous donner, avec toute la rigueur que nous appliquons et qui est considérable.

M. Richardson: Très bien. Merci.

M. Gagliano (Saint-Léonard): Monsieur Dye, revenons-en à la perception de l'impôt et à vos préoccupations face au nouveau régime. À l'heure actuelle, un vérificateur de l'impôt s'occupe des déductions à la source, un autre de la taxe de vente fédérale ou de la taxe d'accise et un autre de l'impôt sur le revenu. En fait, je pense qu'il y a même deux ministères qui sont en cause: impôt et accise et taxe de vente.

Dans votre vérification, avez-vous envisagé la possibilité d'avoir trois intervenants, il n'y a qu'un seul vérificateur qui s'acquitte de la vérification des livres, qu'il s'agisse de liste de paie, de la taxe de vente fédérale, de la TPS l'année prochaine ou de l'impôt sur le revenu. Cela serait-il plus efficace? Je n'en sais rien, mais j'aimerais avoir votre avis là-dessus.

M. Dye: Monsieur le président, je ne me suis pas penché sur la question de savoir s'il serait préférable de confier tous ces processus d'évaluation de la perception de l'impôt à un seul vérificateur polyvalent. Je n'ai pas la réponse à votre question. Je peux vous dire, cependant, que nos vérificateurs estiment être en présence de cultures fort différentes dans les domaines de la perception de l'impôt sur le revenu, du revenu des particuliers et de la taxe sur la vente au détail, qui entrera en vigueur ou l'actuelle taxe sur la vente des fabricants. Dans chaque cas, c'est une personne différente qui s'acquitte de ce travail. Je ne peux pas vous expliquer en détail tous les paramètres de ces différentes cultures, mais on m'a expliqué qu'il s'agissait d'éléments bien différents.

Mme Cheng: Dans notre chapitre, nous avons parlé des nombreux défis que pose l'administration de la TPS. L'un d'eux est la coordination avec d'autres organismes. Nous préconisons que le ministère du Revenu étudie la possibilité de collaborer avec d'autres organismes ayant de l'expérience dans l'administration de programmes fiscaux complexes afin de réduire au minimum le fardeau des contribuables. Ces organismes sont mentionnés aux paragraphes 18.41 à 18.43, à la page 400 de notre rapport annuel. Il y est fait mention de l'Impôt, ainsi que des

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income tax department. We also talked about the retail sales-tax administrators with the provinces. We spoke of systems coordination in terms of learning to work with other systems, learning how to set up these major revenue systems or working with their existing audit ability.

The Chairman: We would now have pretty well every business in the business end of the income tax system, would we not? Most of the taxpayers who might be required to collect and remit GST would already be, somewhere along the line, in the business field of remitting income tax for employees or remitting corporate tax or filing on a business-type basis.

Mr. Dye: I do not think that is true. As I understand the proposal, you are going to have partnerships reporting tax. In the present income tax system, they collect from individuals or corporations, not partnerships. There is a vast number of accounting firms and legal firms in the country who operate in the partnership style and are not now tax filers.

The Chairman: But the partners file the partnership balance sheet and distribution sheet with their return to show how they have earned their partnership position, do they not? That is what I did when I was practising law.

Mr. Dye: I am not sure if they file balance sheets. I think they would certainly file a financial statement of the practice in terms of the income and expenditure.

The Chairman: Yes, and the asset. They report the partners' capital position, if you want to put it that way, or undrawn-out income position—unwithdrawn money.

Mr. Dye: I am not enough of a tax expert to tell you, but I know that there is a view in the land that you provide the tax department with the information they are entitled to, but not all that you have. They may well do that, but I am not sure that complete financial statements are filed, and it would be unlikely that they are audited. Partnerships, I mean.

The Chairman: They are audited. In running a law firm, I used to get audited every three years by the Department of National Revenue. The idea was that if they could find that the firm did not report stuff properly it would affect the income tax returns of all of the partners.

Mr. Dye: I am surprised it is every three years, judging by the monitoring. I suspected that it might be once every 27 years.

[Translation]

mécanismes provinciaux d'administration de la taxe de vente provinciale au détail. Nous avons préconisé une telle coordination parce qu'ainsi nous pourrions apprendre comment établir ces grands programmes fiscaux, comment harmoniser nos efforts avec ceux d'autres organismes et tirer parti de leurs ressources actuelles en matière de vérification.

Le président: La presque totalité des entreprises assujetties au régime fiscal seraient désormais touchées, n'est-ce pas? La plupart des contribuables qui peuvent être appelés à percevoir et à verser la TPS auraient déjà une certaine expérience de la chose, soit qu'ils ont déjà rempli une déclaration d'impôt à titre de chef d'entreprise, ou encore payé l'impôt sur les sociétés ou l'impôt sur le revenu pour leurs employés.

M. Dye: Je ne pense pas que ce soit le cas. Selon mon interprétation de cette proposition, les sociétés de personnes devront remplir une déclaration d'impôt. À l'heure actuelle, le fisc réclame une déclaration aux particuliers ou aux sociétés, mais pas aux sociétés de personnes. Il y a un grand nombre de sociétés comptables et de cabinets d'avocats canadiens qui sont constitués en société de personnes et qui, à l'heure actuelle, ne remplissent pas de déclaration d'impôt.

Le président: Mais les associés doivent fournir, avec leur déclaration, le bilan et l'état de la répartition des revenus de la société de personnes pour laquelle ils travaillent afin de prouver comment ils ont acquis leur statut d'associé, n'est-ce pas? C'est ce que je faisais lorsque je pratiquais le droit.

M. Dye: Je ne suis pas certain qu'ils fournissent des bilans. Chose certaine, ils doivent présenter un état financier affichant les revenus et les dépenses liés à la pratique de leur profession.

Le président: Oui, ainsi que l'actif de la société. Ils déclarent les capitaux dont disposent les associés, si je peux m'exprimer ainsi. Il s'agit essentiellement des revenus non retirés, c'est-à-dire que l'on a laissés dans la société.

M. Dye: Je ne suis pas fiscaliste, de sorte que je ne peux pas vous répondre avec précision. Par contre, je pense qu'il est admis que le contribuable communique au fisc tous les renseignements auxquels il a droit, mais non la totalité de ses états financiers. Il se peut fort bien que les membres de sociétés de personnes agissent ainsi, mais je doute qu'ils fournissent des états financiers exhaustifs. En outre, il est peu probable que les sociétés de personnes fassent l'objet d'une vérification.

Le président: Elles sont vérifiées. Lorsque je dirigeais un cabinet d'avocats, le ministère du Revenu national faisait une vérification tous les trois ans. En effet, on supposait que si le cabinet ne tenait pas d'état financier satisfaisant, cela se répercuterait dans les déclarations d'impôt de tous les associés.

M. Dye: Je suis surpris que cela ait lieu tous les trois ans, compte tenu des mécanismes de contrôle actuels. J'aurais plutôt cru que c'était tous les 27 ans.

[Texte]

The Chairman: Today, you mean?

Mr. Dye: I am being facetious, Mr. Chairman.

Mr. Gagliano: My question was related to trying to see two things. First of all, we want to be more efficient in collecting the tax for the department, and also more efficient for the taxpayer. If you get on the National Revenue audit list, you might have an audit practically every year. Really, you are in the same boat. Let us be realistic. If there is sales tax you go through the whole system. That is why I want to know if you have any audits on that.

• 1055

This concerns me, because with the GST, from what we have been reading on paper, it seems at least a couple of provinces are looking at the possibility of acting as collection agencies for the federal government. It is true that the provinces will have auditors experienced with different retailers and so on, but still we are talking here about two systems of taxes.

Now, if the argument is that we need a tax auditor for deductions at source, income tax and federal sales tax, excise tax, how come the same person can do the job? If one person can audit provincial sales tax and GST, then the auditor working on income tax or payroll deductions should also be able to audit a GST, do one tax audit, and maybe have some more efficiency and maybe even some savings.

Mr. Dye: Chairman, Mr. Gagliano's hypothesis makes sense to me. I am sure it is possible to have an all-purpose auditor available. How the government organizes itself is a matter of choice for the government. I am informed there are some discussions along those lines, but I do not know the extent of them and we have not audited them.

Mr. Attewell (Markham—Whitchurch—Stouffville): I would like to ask a few questions about the government's ability to control budget cut-backs in an orderly way. In your last report you identified Parks Canada as an example where it was not done very well. As I recall, most of the cuts occurred at the delivery level and not at the senior levels. Of course that creates a lot of problems. You are destroying or really hurting the service itself, so back comes the feedback from the general public that they are not getting the service they want. The middle structure of the management levels I guess were untouched.

It seems pretty clear we are in for a few years of some severe cut-backs. All indications are that Mr. Wilson's budget that will be out within the month will contain

[Traduction]

Le président: Vous parlez de maintenant?

M. Dye: Je plaisantais, monsieur le président.

M. Gagliano: Je voulais éclaircir deux choses. Premièrement, nous voulons rendre les mécanismes de perception des impôts plus efficaces à la fois pour le ministère et pour le contribuable. Si vous êtes sur la liste de vérification de Revenu national, il se peut fort bien que vous soyez assujetti à une vérification presque tous les ans. En fait, cela revient au même. Il faut être réaliste. Toute taxe de vente doit s'appliquer à l'ensemble du système. Voilà pourquoi je veux savoir si vous avez procédé à des vérifications à cet égard.

Certains articles que j'ai lus dans les journaux suscitent mon inquiétude. En effet, il semble qu'une ou deux provinces, à tout le moins, envisagent de s'occuper de la perception de la TPS pour le compte du gouvernement fédéral. Il est vrai que les provinces ont des vérificateurs qui sont déjà habitués à traiter avec les commerces de détail, mais il n'en demeure pas moins que nous sommes en présence de deux régimes fiscaux différents.

Si, comme vous l'avez dit tout à l'heure, il faut un vérificateur différent pour les déductions à la source, l'impôt sur le revenu, la taxe de vente fédérale et la taxe d'accise, comment se fait-il qu'en l'occurrence, la même personne pourrait s'acquitter de cette tâche? Si le même vérificateur peut examiner la TPS et la taxe de vente provinciale, le vérificateur chargé d'examiner les déductions au titre de la paye ou de l'impôt sur le revenu devrait également être en mesure de faire une vérification de la TPS et de faire une vérification fiscale. Cela entraînerait peut-être une plus grande efficacité, voire même des économies.

M. Dye: Monsieur le président, l'hypothèse de M. Gagliano me semble raisonnable. Je suis sûr qu'il est possible de trouver un vérificateur polyvalent. En fait, c'est au gouvernement qu'il appartient de décider comment il va s'y prendre. D'après ce que je sais, il y a des discussions là-dessus, mais je n'en connais pas la teneur et je n'ai pas fait de vérification.

M. Attewell (Markham—Whitchurch—Stouffville): Je voudrais poser quelques questions au sujet de la capacité du gouvernement d'appliquer de façon ordonnée ses compressions budgétaires. Dans votre dernier rapport, vous avez mentionné qu'à Parcs Canada, par exemple, il y avait eu des lacunes à cet égard. Si je me souviens bien, la plupart des compressions visaient la prestation des services et non les niveaux supérieurs. Bien entendu, cela a créé une multitude de problèmes. On en arrive à démanteler ou à ébranler sérieusement le service, de sorte qu'au bout du compte, la population se plaint de ne pas obtenir le service requis. Je crois qu'on avait entièrement éparpillé les cadres intermédiaires.

Il est clair que les prochaines années verront des compressions rigoureuses. Tout indique que dans le budget qu'il déposera d'ici la fin du mois, M. Wilson

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another series of cut-backs, perhaps the largest cuts ever. I have some concern whether you see there is a proper mechanism in place not only to control these but to follow through to see that it is done correctly. I am not quite aware of your lag-time, but so often you seem to be dealing with something that happened a year ago or three years ago. Obviously you have built up a lot of expertise in your department.

Do you see a proper mechanism in place whereby you are used as a consultant, or you speed up the timing of what is going to happen? I would predict massive cuts are coming, and in all honesty I do not think our record is all that great in some of the initiatives.

I think back to the Erik Nielsen task force, the most comprehensive review of government operations ever undertaken. Almost a thousand projects were looked at, hundreds of private sector men and women were part of that, and they had some experience in whatever area they were looking at, agriculture or whatever. Some of the ideas were bought, some were rejected. I am sure that is fine too, but I did not get the belief that we had a strong enough follow-through on that. I think the final stage was sending the respective volumes to Transport or wherever to deal with them.

Do you have some suggestions on how we could strengthen our ability to deal with these cut-backs? This affects morale. There are ways of doing things, whether you want to do them quickly rather than spread them out, or whether you do not concentrate totally on program cut-backs. At the early stages it looks like the CBC may be erring in that direction, attacking programs more than the vice-president level to get at the fat at that level. Do you have some comments in that area?

Mr. Dye: Chairman, I do. One of my observations, having enjoyed nine years in public service and prior to that 25 years in the private sector, is that there are two approaches to customer service—who is going to deliver the service. In the private sector, my experience tells me that organizations and enterprises do their very best to maintain the level of service, the quality of product and how they deal with their customers. This end of the business is virtually sacrosanct. The cuts occur deep inside the core of the organization where their customers and clients and people who deal with the organization are not affected.

• 1100

Mr. Attewell: You are talking about the private sector.

Mr. Dye: I am talking private sector. I think the actual reverse is my impression of the public sector. The first thing that goes is the activity at the coal face and the inside remains secure. The administrative functions, all of

[Translation]

annoncera une autre série de compressions, peut-être les plus dures que nous ayons jamais eues. Croyez-vous qu'il existe à votre avis un mécanisme adéquat qui permette non seulement de procéder à ces compressions, mais d'effectuer un suivi pour vérifier si elles ont été faites correctement. Je ne sais pas précisément quels sont vos délais, mais il me semble que votre attention se porte souvent sur quelque chose qui remonte à un an ou même à trois ans. De toute évidence, votre ministère possède un imposant bagage de connaissances spécialisées.

Croyez-vous qu'il existe un mécanisme qui vous permettrait de jouer un rôle d'expert-conseil ou d'accélérer les choses, le cas échéant? Je crois que nous devons faire face sous peu à des compressions d'envergure et, pour être franc, notre bilan n'est pas brillant, si je songe à certaines initiatives.

Permettez-moi de me reporter au groupe de travail Nielsen qui a effectué l'examen le plus exhaustif des activités gouvernementales jamais entrepris. On a examiné près d'un millier de projets et mis à contribution des centaines d'hommes et de femmes du secteur privé qui avaient de l'expérience dans le domaine qu'ils étaient chargés d'étudier, que ce soit l'agriculture ou un autre. Certaines de leurs idées ont été bien accueillies, d'autres ont été rejetées. Je n'ai rien à redire à cela, mais je ne suis pas sûr qu'on ait donné un suivi satisfaisant à cette initiative. Je pense que la dernière étape a consisté à renvoyer les divers volumes aux ministères concernés.

Auriez-vous des suggestions sur la façon dont nous pourrions nous y prendre pour mieux procéder à ces coupures, étant donné qu'elles ont des répercussions sur le moral des employés. Il y a une façon de procéder, selon que l'on veut appliquer ces compressions rapidement ou les étaler, ou que l'on choisit de ne pas sabrer uniquement dans les programmes. D'entrée de jeu, il semble que Radio-Canada fasse fausse route. En effet, on s'est attaqué aux programmes au lieu de se débarrasser du bois mort au niveau du vice-président. Avez-vous des commentaires?

M. Dye: Oui, monsieur le président. Premièrement, après avoir travaillé pendant neuf ans dans le secteur public, et, avant cela, 25 ans dans le secteur privé, j'estime qu'il existe deux façons d'aborder le service à la clientèle. D'après mon expérience, les entreprises et les organisations du secteur privé font tout leur possible pour maintenir le niveau de service, la qualité du produit et les bonnes relations avec la clientèle. Cet aspect de l'entreprise est pratiquement sacré. Le cas échéant, les compressions visent la structure de l'organisation et épargnent les services à la clientèle.

M. Attewell: Vous parlez du secteur privé.

M. Dye: C'est exact. Au sein du secteur public, j'ai l'impression que c'est carrément le contraire. On sabre en premier dans la première ligne de front et l'on ne touche pas aux arrières. Les fonctions administratives, les activités

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the policy making functions and all of the things that are behind our moat here in Ottawa remain quite secure. It is the customer who loses the service. I am generalizing, as you realize.

I think your points on parks is consistent with the way we reported that. The cut-backs were out in Banff and not in Hull.

You have asked if we are in a position of being consultants. No, that is not our mandate. I am in fact very strong in resisting that. We often get requests for help with some little problem. There are two aspects to that. One is that I would be in competition with competent people in the private sector who are in the consultancy business. The government can pay them to do it and get good results. We would be not in competition. The other part is that if you get into consultancy, you start almost managing and then we would be auditing our own management. We would like to remain independent of that aspect of our work. We are 99% auditors.

We have had interesting situations when we have said we are going to contract out the work and a Crown corporation has said it would like to keep the continuity of our people for advice. There is some incidental advisory activity going on, but basically we are auditors. We are looking after the fact and we are not helping government to design systems. On the other side, we are trying to make Parliament aware of where potholes may be and action constructively taken.

Mr. Attewell: In my background in business for 30 years, when there were some tough decisions to take on costs and so on, usually the chairman or the president would chair a committee with VP-finance not only to make the initial decisions, but also to have monthly or every-60-days follow-up on respective divisions of what they had done in terms of what they were supposed to do and how was it going, etc. Do you sense we have that? I know we have the Treasury Board. There is an Expenditure Review Committee, which is obviously looking at the cuts that are going to have to be made. Do you sense there is that follow-through process in place yet?

Mr. Dye: I suppose there are follow-through processes, but I do not think they work. I do not think we are designed properly. I think we have a major problem. I called in my report this year for a major reform of the Public Service to change the design.

I think parliamentarians should get moving on significant reform of legislation affecting the human

[Traduction]

de prise de décision, tout ce qui constitue les arrières, ici à Ottawa, sont protégés. C'est le client qui fait les frais d'une perte de service. Évidemment, je généralise.

Votre argument concernant les parcs est conforme à notre rapport. C'est à Banff, et non pas à Hull, qu'on a dû absorber des compressions.

Vous m'avez demandé si nous sommes en mesure de jouer le rôle d'experts-conseils. Non, car ce n'est pas notre mandat. En fait, je répugne énormément à faire cela. Il arrive souvent qu'on nous demande notre aide pour régler de petits problèmes. Cela soulève deux questions. Premièrement, si nous acceptions, nous ferions concurrence à des experts-conseils compétents du secteur privé. Le gouvernement peut retenir leurs services et obtenir de bons résultats. Nous ne voulons pas faire concurrence à ces gens-là. Deuxièmement, la ligne de démarcation entre la prestation de conseils spécialisés et la gestion est très mince de sorte qu'au bout du compte, nous serions appelés à faire une vérification de nos propres pratiques de gestion. Or, nous tenons à rester indépendants de cet aspect. Nous sommes des vérificateurs à 99 p. 100.

Des situations intéressantes se sont déjà présentées. Il nous est déjà arrivé de dire à une société de la Couronne qu'il était préférable de recourir à la sous-traitance pour un travail donné. Ces responsables nous ont répondu qu'ils aimeraient pouvoir continuer de compter sur les conseils de notre personnel. Il nous arrive donc de fournir à l'occasion des conseils, mais essentiellement, nous sommes des vérificateurs. Nous arrivons après coup et nous ne sommes pas là pour aider le gouvernement à élaborer des systèmes. Par ailleurs, nous tentons de sensibiliser le Parlement aux problèmes et à la nécessité de prendre des mesures de redressement.

M. Attewell: J'ai travaillé dans le monde des affaires pendant 30 ans, et chaque fois que des décisions difficiles s'imposaient en matière de coûts, par exemple, le PDG ou le président prenait la tête d'un comité avec le vice-président des finances. C'était un instrument qui lui permettait non seulement de prendre les décisions initiales, mais aussi d'obtenir tous les mois ou tous les deux mois un suivi des diverses divisions touchées. Ainsi, il savait quelles mesures elles avaient prises pour réaliser leurs objectifs et si les choses se passaient bien ou non. Avons-nous un mécanisme de ce genre? Il y a, évidemment, le Conseil du Trésor. Il y a aussi le comité d'examen des dépenses qui, naturellement, est chargé d'examiner les compressions qui s'imposent. Estimez-vous qu'un mécanisme de suivi est déjà en place?

M. Dye: Je suppose qu'il existe des mécanismes de suivi, mais je ne pense pas qu'ils fonctionnent. À mon avis, c'est leur conception même qui est déficiente, et cela pose un problème d'envergure. Dans mon rapport de cette année, j'ai préconisé une réforme radicale de la Fonction publique à cet égard.

J'estime d'ailleurs que les parlementaires devraient modifier de fond en comble la législation concernant les

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resources in government. I think there is a real opportunity happening in this Public Service 2000 project that is going on whereby the deputy ministers and some assistant deputy ministers are working very diligently to look at reform. I understand that they have a clean sheet of paper in front of them. They are not starting out encumbered by tradition and precedent, which is bogging us down.

It is very difficult to manage in the Public Service. I am sure you have heard that from other managers. The system is so heavy that we cannot function with managers to meet your objective.

Mr. Attewell: Surely you need centralized control, like a president's role somehow. Left to their own devices—you and I would be the same, I think, if we were just within one department—they are going to keep that envelope as high as possible.

Mr. Dye: Everybody has reasons for defending the status quo or improving the empire, expanding others and getting something out of the process.

Mr. Attewell: Specifically, what sort of structure did you have in mind or power did you envisage? Treasury Board having more authority? What?

Mr. Dye: Chairman, I do not have the answer. There are 60 deputy ministers trying to create a plan to have that answer of what might be. I think they should do it. It has been done in other countries. They have had major administrative reform for having a Public Service that is responsive to the needs of the taxpayers, the citizens and parliamentarians. If you look at New Zealand and some of the states in Australia—

Mr. Attewell: Mr. Dye, you know we have a cultural czar; he happens to be on my right. Perhaps we should have an expenditure control czar in the government.

Mr. Holtmann (Portage—Interlake): You can have the job, I will tell you that.

• 1105

Mr. Dye: The word "control" is part of the problem. The controls are so pervasive that managers cannot manage. People are defensive and risk averse because they are so controlled that somebody is going to slap their wrist for a minor thing, rather than getting on with the job. We need management who are allowed to take some risk and get on with their work and manage intelligently.

The Chairman: I am going to adjourn the meeting for two minutes or so to allow everybody to stretch. We will come back in a couple of minutes.

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ressources humaines au gouvernement. Et le projet Fonction publique 2000 constitue l'occasion idéale pour agir puisque tous les sous-ministres, aidés de certains sous-ministres adjoints, s'emploient activement à instaurer une réforme. Je crois comprendre qu'ils ont carte blanche. Ils n'ont pas à se soucier des traditions et des précédents, qui font souvent obstacle.

Toute réforme est très difficile dans la Fonction publique. Je suis sûr que je ne suis pas le premier gestionnaire à vous le dire. L'appareil administratif est tellement lourd qu'on ne peut pas compter sur les gestionnaires pour réaliser les objectifs choisis.

M. Attewell: Chose certaine, il faut qu'il y ait un mécanisme de contrôle central, que quelqu'un assume le rôle de président. Si on laisse les fonctionnaires en faire à leur guise—et je pense que vous et moi ferions la même chose si notre action était limitée à un seul ministère—, ils vont tenter de conserver la plus grosse enveloppe possible.

M. Dye: Tout le monde a des raisons de défendre le statu quo ou d'accroître son empire dans son meilleur intérêt.

M. Attewell: Plus précisément, quels genres de structures ou de centres de pouvoir envisagez-vous? Le Conseil du Trésor aurait-il davantage de pouvoir? Ou quoi?

M. Dye: Monsieur le président, je ne suis pas en mesure de répondre. À l'heure actuelle, 60 sous-ministres tentent d'élaborer un plan qui réponde à cette question. Je pense que c'est une tâche qui leur incombe. D'ailleurs, d'autres pays ont déjà réussi à se doter d'une fonction publique sensible aux besoins des contribuables, des citoyens et des parlementaires, au moyen d'une réforme administrative. En Nouvelle-Zélande et dans certains États d'Australie. . .

M. Attewell: Comme vous le savez, monsieur Dye, nous avons un tsar de la culture; il siège à ma droite. Le gouvernement devra peut-être nommer un tsar du contrôle des dépenses.

M. Holtmann (Portage—Interlake): Vous pouvez avoir mon poste, si vous voulez.

M. Dye: Le terme «contrôle» fait partie du problème. Les contrôles sont tellement envahissants que les gestionnaires ont les mains liées. Les gens sont sur la défensive, ils hésitent à prendre des risques à cause de l'ampleur des contrôles. Ils craignent qu'on ne leur tape sur les doigts s'ils prennent la moindre initiative, au lieu d'aller de l'avant. Il faut que les gestionnaires puissent prendre certains risques, de façon à faire leur travail intelligemment et à obtenir des résultats.

Le président: Je vais lever la séance pour quelques minutes pour que tout le monde puisse se dégourdir les jambes. Nous reviendrons dans quelques instants.

[Texte]

[Traduction]

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The Chairman: Can we carry on? Mrs. Marleau.

Mrs. Marleau (Sudbury): Mr. Dye, you have spoken in terms of how cut-backs and budget cuts tend to affect delivered services, rather than what happens in the private sector. I want to dovetail into that. I want to bring up the fact that last year, and again this year, you have always had a number of construction projects. It appears that contracts are let out for \$5 million and in the end become extremely costly.

• 1110

I was on the Public Accounts Committee last year where a number of projects were highlighted. I realize that again this year there are a number of projects highlighted. I believe that at some point in your report you made reference to planning—and it had not greatly improved.

I realize it is difficult in a bureaucracy to control this kind of thing, but how do you explain the fact that it keeps happening, that despite everything stated to the effect, despite the public outcry, it carries on?

Mr. Dye: Mr. Chairman, what might be of particular interest is a specific construction project. It is related perhaps to the interests of your committee. In our annual report this year on major capital projects—every year we look at major capital projects and have findings that have been articulated—we looked at the Department of National Revenue, Customs and Excise training college in Rigaud. It was originally acquired for customs from a religious order, I believe. Now there is the potential for a large number of people from the GST, if that is to happen, to be trained there. It is a large institution. This is another of these stories about ineptitude in planning and construction.

They sent two consultants down there, each with a \$10,000 contract, to tell the Department of Public Works if this facility would be appropriate for a training college in the taxation business. For that kind of money, the best they can do is merely count the rooms. It was too little. They wind up having very little understanding of what they are in for. I cannot remember the exact number, but about \$35 million later, they got themselves a college. They then proceeded to tear down its front wall because there was a problem with insulation.

It is a big frustration to my office. We do report on these issues regularly. Part of the problem is political. Some governments decide there will be a facility for X

Le président: Peut-on continuer? Madame Marleau.

Mme Marleau (Sudbury): Monsieur Dye, vous avez dit que les compressions budgétaires et les coupures touchaient surtout la prestation des services, contrairement à ce qui se passe dans le secteur privé. Je voudrais revenir là-dessus. Je signale que l'année dernière, et encore cette année, vous avez mis en lumière un certain nombre de projets de construction. À ce qu'il semble, on a passé des marchés de 5 millions de dollars pour des projets qui finissent par nous coûter les yeux de la tête.

L'année dernière, alors que je siégeais au Comité des comptes publics, nous avons examiné un certain nombre de projets que vous aviez signalés. Je constate qu'encore une fois cette année, vous pointez du doigt des projets de construction. Dans votre rapport, vous aviez mentionné la nécessité d'une meilleure planification, mais les choses ne se sont guère améliorées.

Je sais que c'est le genre de chose qui est très difficile de maîtriser dans toute bureaucratie, mais comment expliquez-vous que de tels abus continuent à se produire, en dépit de tout ce qu'on dit à ce sujet et de l'indignation de la population?

M. Dye: Monsieur le président, je pense que ce serait peut-être bon de parler d'un projet de construction précis qui ne devrait pas manquer d'intéresser le Comité. Tous les ans, nous examinons des projets d'immobilisation d'envergure et nous rédigeons certaines conclusions. Dans notre rapport annuel de cette année, nous avons étudié le ministère du Revenu national, et plus précisément le Collège de formation de Douanes et Accise de Rigaud. À l'origine, Douanes et Accise a acheté ce collège à un ordre religieux. À l'heure actuelle, on envisage d'y offrir la formation aux employés chargés d'administrer la TPS. Il s'agit d'un vaste établissement. D'ailleurs, c'est une autre de ces histoires d'horreur sur l'ineptie des fonctionnaires en matière de planification et de construction.

Le ministère des Travaux publics a embauché deux experts-conseils, ayant en poche chacun un contrat de 10,000 \$, qui devait déterminer si l'édifice en question pouvait être transformé en établissement de formation fiscale. Avec si peu d'argent, tout ce qu'ils pouvaient faire, c'était compter les pièces. C'était beaucoup trop peu. Résultat : le ministère n'a qu'une vague idée de ce qui l'attend. Je ne peux pas vous citer le chiffre exact, mais ce collège a coûté environ 35 millions de dollars au ministère. Ensuite, il lui a fallu en démolir la façade en raison d'un problème d'isolation.

Vous imaginez la frustration des gens de mon bureau. Nous faisons des rapports sur ce genre de situation régulièrement. Le problème est en partie politique. Un

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and it will be tall and slim. Another government comes along and says it is going to change that project. Instead of doing something for X, they change it to Y. It is not going to be tall and slim, it is going to be wide and flat.

I think another major problem is in the building of these things. Contractors make their money on change orders. There are a huge number of change orders in most government projects I have looked at. They have a plan, they start, and it is completely changed as it evolves.

The Chairman: Is that because of inept work in the Department of Public Works in terms of tendering the work in the first place, not contemplating all of the problems of the work, doing the architectural work correctly, and so on?

I agree with you. I have been involved with the contracting business. If you get a set of plans and you know right off the bat, looking at them, that the planners have goofed and they will have a great change order, you can under-bid the contract, knowing perfectly well when you tilt your tender that the moment there is a change order you are going to make a fortune. There has to be that.

Mr. Dye: I would not lay all of the blame at DPW's feet. I think sometimes departments... We reported to Parliament on a building planned for Hull, for agricultural research I think. It was an exotic building with special containment for hazardous things. The Department of Public Works I suppose tried to do its best, but the department—I think it was Agriculture, but I may be wrong—did not consult with them. They did not really articulate their needs. By the time the thing was all designed, the department came along and said that would not do. Then the politicians came along and said instead of Hull, why not Regina, or Saskatoon, I think it was. Again, you just start all over again and draw it again. It is a combination of factors.

Mrs. Marleau: Well, there are massive amounts of money wasted in these kinds of exercises. I believe Revenue Canada did not want the facility in Rigaud, or were not particularly in favour of it.

Mr. Dye: Mr. Chairman, my understanding was that the building was imposed on them against their will.

• 1115

Mrs. Marleau: I just felt that it dovetailed in with what you had said before, which is that we need more efficiency. How you bring it about is the question. When you are facing the massive deficits that we are facing, it is a very serious consideration. I mean, these are large dollar values, and they are large dollar mistakes on whoever's

[Translation]

gouvernement décide de construire un édifice haut et mince pour un but x. Un autre gouvernement prend le pouvoir et décide de changer le projet. On lui donne une vocation y au lieu de x. En outre, ce ne sera plus un édifice haut et mince, mais large et plat.

Une autre partie du problème tient à l'aspect strictement construction de ces édifices. Les entrepreneurs se remplissent les poches à la suite de changements de commande. Il y a un nombre effroyable de changements dans la plupart des projets gouvernementaux que j'ai examinés. On commence avec un plan que l'on modifie de fond en comble au fur et à mesure des travaux.

Le président: Cela tient-il à l'incurie du ministère des Travaux publics en ce qui concerne l'appel d'offres, ou encore à son incapacité d'envisager tous les problèmes liés à ce projet ou de s'acquitter correctement des travaux d'architecture?

Je suis d'accord avec vous, car j'ai déjà été entrepreneur. Dès que vous recevez des devis, vous pouvez constater que les planificateurs se sont trompés et qu'ils vont devoir tout modifier. A ce moment-là, vous pouvez présenter une soumission inférieure, sachant parfaitement bien que vous allez faire fortune grâce aux changements de commande. Il faut que ce soit cela.

M. Dye: Travaux public Canada n'est pas le seul ministère coupable. Je pense qu'il arrive que certains ministères... nous avons fait un rapport au Parlement au sujet d'un édifice qu'on prévoyait construire à Hull. Je pense qu'il s'agissait d'un édifice destiné à la recherche agricole. Il s'agissait d'un édifice bizarre doté d'une enceinte spéciale pour les produits dangereux. Le ministère des Travaux publics a dû faire son possible, mais son client—je pense que c'était le ministère de l'Agriculture, mais je peux me tromper—ne l'a pas consulté. Les hauts fonctionnaires de l'Agriculture n'ont pas fait connaître clairement leurs besoins. Une fois l'édifice dessiné, le ministère a déclaré que les plans ne faisaient pas l'affaire. Ensuite, les hommes politiques s'en sont mêlés et ils ont demandé pourquoi on avait choisi Hull, et non Regina ou Saskatoon. Encore une fois, il ne restait plus qu'à tout recommencer depuis le début. Tout cela est dû à une combinaison de facteurs.

Mme Marleau : Ce genre d'exercice donne lieu à un gaspillage éhonté. Je pense que Revenu Canada ne voulait pas de l'édifice de Rigaud ou, en tout cas, n'y tenait pas particulièrement.

M. Dye: Monsieur le président, je crois savoir que cet édifice a été imposé au ministère, contre son gré.

Mme Marleau: J'y voyais simplement un rapport avec ce que vous avez dit à propos de la nécessité d'accroître l'efficacité. Il reste à trouver comment. C'est une question cruciale quand on fait face à des déficits énormes comme les nôtres. Il s'agit de sommes considérables et quelqu'un est responsable. Nous ne devons pas oublier

[Texte]

part. Somehow we have to consider that we are here to deliver a service and we are also in a position of having to watch the dollars.

Mr. Dye: Mr. Chairman, I think one of the things that would aid in reducing the waste of capital construction across government would be to have a closer linkage between the beginning of the planning horizon and the ultimate building. Some of these projects take 25 years. Needs change, design techniques change, there is too much opportunity for change along the way, and I think if you could get a better articulation of need and agreement to go, do it and finance it in a way that is least costly.

One of the big problems in the cost of our capital construction in this country is the style in which we finance them, which does not really show in the accounts. We often lease, and I believe the strategy is that because of our accounting system, which I think is inappropriate in this case, you hide the cost of the capital by having just the lease payments hit the accounts, as opposed to the cost of the building. It looks cheaper, but at the end it costs a great deal more to the taxpayer. That is a political decision, really, and I have argued against that. I see governments persist in doing what I think is an expensive way of doing business.

The Chairman: They are taking advantage of their own capital cost allowances through the Income Tax Act.

Mr. Dye: Which is part of the cost.

The Chairman: Sure. It is a tax avoidance scheme.

Mr. Dye: The corporations that are in the construction business, developers, have a higher cost of capital than the Government of Canada as well.

The Chairman: The corporation that builds a building, if it is a spec-built building in a sense and if it would serve the purpose, probably could cut corners that the department would never think of cutting in building the building.

Mr. Dye: Another point, you know, is there is too much built into some of the buildings.

Mr. Holtmann: I want to just broach a subject on agriculture, if I can. Mr. Chairman, you and I know a little bit about farming.

The Chairman: Certainly.

Mr. Holtmann: Mr. Dye, you were critical of a tripartite program established by the government a couple of years ago. It went \$17 million in the hole. I am talking about the Sugarbeet Stabilization Program. When I read your critique on it I wondered why I never heard from the Auditor General when another stabilization program was a billion dollars to the good at one time. I am talking about the Western Grain Stabilization Program. I did not

[Traduction]

que nous sommes ici pour rendre un service et que nous sommes également en mesure de surveiller l'utilisation des deniers publics.

M. Dye: Monsieur le président, une chose qui pourrait contribuer à réduire au gouvernement le gaspillage dans la construction d'installations permanentes serait un lien plus étroit entre l'étape de la planification et celle de la construction définitive de l'édifice. Certains de ces projets durent 25 ans. Les besoins changent, les techniques de conception changent. Il y a donc trop de possibilités de changement pendant toutes ces années, et je pense que si l'on peut mieux articuler les besoins et s'entendre sur le projet, il faut le financer de la façon la moins coûteuse possible.

L'une des principales raisons pour lesquelles les installations permanentes au pays coûtent tellement cher est la façon dont nous les finançons, qui ne paraît pas vraiment dans les comptes publics. Nous prenons souvent des installations à bail et je pense que c'est parce que notre système comptable, inapproprié dans ce cas, à mon avis, permet de dissimuler le coût des immobilisations, car on inscrit seulement le paiement du loyer dans les comptes, au lieu du coût de l'édifice. Cela peut sembler moins cher, mais en fin de compte, cela coûte beaucoup plus aux contribuables. C'est une décision politique et je m'y suis déjà opposé. Les gouvernements persistent cependant à utiliser cette méthode que je trouve dispendieuse.

Le président: Ils profitent de la déduction pour amortissement permise par la Loi de l'impôt sur le revenu.

M. Dye: Et qui fait partie du coût.

Le président: Certainement, c'est un stratagème d'évitement fiscal.

M. Dye: Les entreprises de construction, les promoteurs ont également des coûts d'immobilisation plus élevés que le gouvernement du Canada.

Le président: Une société qui construit un immeuble suivant les devis de départ et à une fin précise, trouverait probablement des moyens de rogner sur des coûts auxquels le ministère ne songerait peut-être jamais.

M. Dye: En outre, vous savez qu'on ajoute trop de détails dispendieux dans les immeubles.

M. Holtmann: Si vous le permettez, j'aimerais parler brièvement de l'agriculture. Vous et moi nous y connaissons un peu en agriculture, monsieur le président.

Le président: Certainement.

M. Holtmann: Monsieur Dye, vous avez critiqué un programme tripartite établi par le gouvernement il y a deux ou trois ans. Ce programme a été déficitaire de 17 millions de dollars. Je veux parler du Programme de stabilisation des prix des betteraves à sucre. Quand j'ai lu votre critique, je me suis demandé pourquoi le vérificateur général n'avait rien dit lorsqu'un autre programme de stabilisation a réalisé des bénéfices d'un

[Text]

hear you complain about that. Yet we get into a stabilization program and you suggested the figures they used were wrong in calculating the cost per acre, and consequently the government overspent by almost \$6 million.

How can you evaluate a stabilization program only two years into it, and how can you predict what the cost of production is down the road? Because you were quite critical of this. I am questioning your numbers in terms of cost per acre. Where do you go for those numbers? Do you go to the Department of Agriculture, or do you contact farmers in Alberta and Manitoba and decide what the cost per acre is? I have not met one farmer out where I farm who figured they made any money, even with the stabilization, but it held them on the farm.

So here we are with two years in a program, you are critical of spending \$17 million. I believe Western Grain is probably into a billion plus deficit in the situation right now. I am not just certain. The government bailed it out at one time. On a little program like this you are critical, and I did not understand your thinking there. I wonder if you would maybe want to elaborate on that.

Mr. Dye: Mr. Chairman, perhaps parliamentarians would recall the criticism we had of the programs and the way the subsidization payments were calculated based on crops in the past rather crops in the future. There were problems then. I think you are commenting about paragraph 4.47 through to paragraph 4.49.

Mr. Holtmann: Yes.

• 1120

Mr. Dye: My recollection is that a method of calculation is set out in the program. As a result of not following that prescribed style of calculation that had been agreed upon among the farmers, the provinces, the provincial agricultural agencies, and the federal agencies forming this tripartite agreement, using a different formula, wound up paying out more than the formula called for. Of course it threw the program into a huge loss it would not have been in if they had followed the agreement. So the arithmetic is wrong, to start with, in our view.

As to the future of the sugarbeet thing, I do not know that we are able to provide you with any more information than we had from the federal Department of Agriculture and the provincial ones using their forecast for sugarbeets. I believe since we wrote the chapter sugarbeet futures have been improving and the industry is feeling happier about its prospects. But at the time we

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milliard de dollars. Il s'agit du Programme de stabilisation concernant le grain de l'Ouest. Je ne vous ai pas entendu vous en plaindre. Pourtant, nous instituons un autre programme de stabilisation, et vous dites que les chiffres utilisés pour calculer le coût par acre n'était pas bon, de sorte que le gouvernement a dépensé plus de 6 millions de dollars en trop.

Comment pouvez-vous évaluer un programme de stabilisation en deux ans seulement et comment pouvez-vous prédire quels seront les coûts de production plus tard? Vous avez été très sévère dans votre critique. Je ne suis pas certain de pouvoir accepter le chiffre concernant le coût par acre. Où prenez-vous ces chiffres? Vous adressez-vous au ministère de l'Agriculture ou communiquez-vous avec des agriculteurs de l'Alberta et du Manitoba pour ensuite décider du coût par acre? Je n'ai pas rencontré un agriculteur là-bas, où j'ai ma propre exploitation agricole, qui pense réaliser des profits, même avec l'aide du programme de stabilisation, mais du moins ils peuvent continuer à exploiter leur ferme.

Voilà donc deux ans que le programme existe, et vous le critiquez parce qu'on a dépensé 17 millions de dollars. Le Programme de stabilisation concernant le grain de l'Ouest est probablement déficitaire de plus de 1 milliard de dollars à l'heure actuelle. Je n'en suis pas tout à fait certain. Le gouvernement a dû le renflouer à un moment donné. Je ne comprends donc pas comment vous pouvez critiquer un petit programme comme celui dont je parle. Vous pourriez peut-être me l'expliquer?

M. Dye: Monsieur le président, les députés se souviendront peut-être des critiques que nous avons formulé à propos des programmes et de la façon dont les paiements de stabilisation étaient calculés en fonction des récoltes passées plutôt que de récoltes futures. Il y avait alors des problèmes. Vos commentaires portent, je pense, sur les paragraphes 4.47 à 4.49.

M. Holtmann: En effet.

M. Dye: Si je me souviens bien, un mode de calcul est stipulé dans le programme. Toutefois, on a finalement versé plus que la formule ne le prévoyait, parce qu'on a modifié la formule de calcul convenue entre les agriculteurs, les provinces, les organismes agricoles provinciaux et les organismes fédéraux qui ont conclu cet accord tripartite. Le programme a donc été très déficitaire, ce qui n'aurait pas été le cas si l'on avait respecté l'entente. Dès le départ, les calculs sont donc erronés, d'après nous.

Pour ce qui est de l'avenir des betteraves à sucre, je ne pense pas que nous puissions vous donner d'autres renseignements que les prévisions reçues du ministère fédéral de l'Agriculture et des ministères provinciaux. Depuis que nous avons rédigé le chapitre sur les betteraves à sucre, je pense que la situation s'est améliorée et que les producteurs sont plus heureux des perspectives

[Texte]

wrote we used all the available information from the most legitimate resources available and we reported what we knew.

Mr. Holtmann: I have been farming for quite a while, and so has our chairman to a certain extent. Let me tell you, do not let anybody listen to the Department of Agriculture and their forecasts of market prices, because they are bloody well wrong all the time. It is almost an established fact.

So here you are, trying to prognosticate what this program is going to do. . . I can tell you, growing grain or selling hogs, I cannot determine today if the price of pigs or the price of grain is going to be a dollar a week from now. We just do not know. That is what happens. Yet all your basis is projecting what could happen through the Department of Agriculture. I guess those are the only figures you can go by. But stabilization programs go in the hole and go into surplus positions from time to time. So maybe if they keep using the same formula in two years they will be in a surplus position. We do not know that.

The Chairman: Your criticism was that they did not use the agreed formula.

Mr. Dye: That is my recollection.

The Chairman: That is really his criticism.

Mr. Holtmann: Yes.

The Chairman: Your criticism is they did not pay enough and—

Mr. Holtmann: They paid the money out, but the money they paid out I do not think put anybody in any kind of a wonderful situation on the farm.

The Chairman: According to the formula they paid out \$17 million too much. It was a pretty rotten formula there.

Mr. Holtmann: Stabilization is when you pay in the tough times and you put it back in good times. But I do not think you should evaluate a program two years into it. That is too quick to jump at it just because it is running a deficit. You almost should wait maybe 8 to 10 years into a program. If the grain thing were in a surplus up to \$1 billion-some, what does the chairman or the auditor say when there is a big surplus? Does he say my goodness, the Canadian farmers are paying in too much? Yet when it goes the other way we hear from him. I found this to be really too quick off the gun for this particular scenario.

Mr. Dye: We have used the best assumptions and predictions we can muster to produce we hope a realistic sensitivity analysis. I do not have any more answers than you do on the future. We have used what is out there.

[Traduction]

qu'ils entrevoient. Toutefois, au moment où nous avons rédigé ces paragraphes, nous avons utilisé toutes les informations disponibles provenant des sources les plus valables et nous avons signalé ce que nous savions.

M. Holtmann: Je suis agriculteur depuis très longtemps et notre président aussi, dans une certaine mesure. Je me permets de vous dire que personne ne doit écouter les prévisions du ministère de l'Agriculture à propos des prix du marché, parce qu'il se trompe tout le temps. C'est presque un fait établi.

Voilà donc qu'on essaie de prévoir ce que fera un programme. . . Je peux vous affirmer que je ne peux pas dire aujourd'hui si le prix du porc ou le prix des céréales va être un dollar dans une semaine. Nous ne le savons tout simplement pas. C'est la réalité. Or vous fondez tous vos arguments sur des projections qui vous viennent du ministère de l'Agriculture. Je suppose que ce sont les seuls chiffres que vous pouvez utiliser. Cependant, les programmes de stabilisation connaissent des déficits certaines années et des excédents d'autres années. Peut-être que si l'on continue d'utiliser la même formule, le programme dont nous parlons connaîtra un excédent dans deux ans. Nous ne le savons pas.

Le président: Votre critique portait sur le fait qu'on n'utilisait pas la formule convenue.

M. Dye: En effet.

Le président: C'est vraiment sur ce point que sa critique porte.

M. Holtmann: Oui.

Le président: Vous critiquez cependant le programme parce qu'on n'a pas suffisamment versé. . .

M. Holtmann: Les versements ont été faits, mais les sommes payées n'ont certainement pas permis aux agriculteurs de faire la belle vie, à mon avis.

Le président: D'après la formule, des sommes totalisant 17 millions de dollars ont été versées en trop. C'était une formule plutôt mauvaise.

M. Holtmann: Un programme de stabilisation permet d'aider les agriculteurs pendant les années difficiles, et ceux-ci contribuent au fonds pendant les bonnes années. Je ne crois pas cependant que vous devriez évaluer un programme après deux ans seulement. On peut alors trop facilement l'attaquer parce qu'il est déficitaire. Vous devriez attendre peut-être huit à dix ans après la création d'un programme. Si le programme de stabilisation concernant le grain avait un excédent de l'ordre d'un milliard de dollars, que dirait le président, ou plutôt le vérificateur, devant un excédent si important? Dirait-il que les agriculteurs canadiens y contribuent trop? Pourtant, dans la situation contraire, nous entendons le vérificateur. J'estime que vous vous hâtez vraiment trop pour critiquer dans ce cas.

M. Dye: Nous avons utilisé les meilleures suppositions et prévisions disponibles pour préparer une analyse de sensibilité réaliste, nous l'espérons. Je n'ai pas plus de réponse que vous à propos de l'avenir. Nous avons utilisé

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Based on what we saw, we were very concerned about the financial viability of the program in its present form.

It may well be that it will be all sweetness and light. We believe these are matters of interest to Parliament when taxpayers are going to foot the bill. So we bring it to your attention for your consideration.

Mr. Langdon: Mr. Dye, you talked about the avoidance of tax and focused, I think quite legitimately, on one or specific areas. I am not certain myself if your department has done work in the past on what I want to talk about. If not, I would hope it might be something you would be able to focus on in the future.

• 1125

With the tremendous amount of inter-firm transfers that take place between our country and the United States, but perhaps even more interestingly, certain third countries that have extremely loose tax regimes, there is a tremendous incentive there for, let us say, branch A of the company in Canada to sell to branch B in the Cayman Islands at a low price, and for the branch B in the Cayman Islands to sell, at least on paper, to the branch in the United States, the parent company, let us say, at quite a high price, and for the Canadian branch itself to look as if nothing is being made in terms of significant profits, and for the branch in the Cayman Islands, which is probably doing very little at all, to look extremely profitable.

Is this something we have the facilities to be able to monitor effectively in our Department of National Revenue? I have certainly heard estimates that suggest we are missing close to \$6 billion to \$8 billion in potential corporate tax revenues from these kinds of transfer payments. Now, that is speculation that is very difficult to back up unless we have people in the department who are able seriously to investigate some of these possibilities.

A number of court cases have tended to back up the department's power to be able to go after some of these corporate profits if it appears that there are deliberate attempts to avoid taxation in the transactions that are taking place through this transfer pricing.

Do we have enough people, as far as you can assess, to be able really to police this? Do we need more people? What would be the pay-off from being able to put more people at that kind of task in terms of extra corporate tax or withholding tax or whatever?

The Chairman: The issue of transfer pricing between companies and subsidiaries.

Mr. Dye: I apologize for the delay. Your question is complex and I would like to give the best answer I can.

[Translation]

les données disponibles. Ce que nous avons pu voir nous a rendus très inquiets à propos de la viabilité financière du programme sous sa forme actuelle.

Il est possible que les choses s'améliorent du tout au tout. Nous croyons cependant que ces questions intéressent le Parlement puisque les contribuables vont payer la note. C'est pourquoi nous portons ces choses à votre attention.

M. Langdon: Monsieur Dye, vous avez parlé d'évitement fiscal dans un ou deux cas précis, avec raison, je pense. Je ne suis pas certain que votre Bureau ait déjà examiné la question dont je veux parler. Si vous ne l'avez pas fait, j'espère que vous pourrez l'examiner de près plus tard.

Étant donné le nombre considérable de transferts qui s'effectuent entre filiales de sociétés dans notre pays et aux États-Unis, et chose peut-être encore plus intéressante, dans d'autres pays où les lois fiscales sont très larges, la filiale d'une société au Canada pourrait être fortement tentée, disons, de vendre un produit à prix réduit à une autre filiale située dans les îles Caïmans, cette filiale revendant ensuite le même produit, du moins sur le papier, à un prix très élevé à la société-mère située aux États-Unis, de sorte que la filiale canadienne paraîtrait ne pas réaliser de bénéfices importants, tandis que celles des îles Caïmans, qui en fait probablement très peu, paraîtrait extrêmement rentable.

Notre ministère du Revenu national dispose-t-il des moyens lui permettant de contrôler ce genre de chose de façon efficace? J'ai certainement entendu dire que ce genre de fixation des prix de cession interne nous faisait perdre de six à huit milliards de dollars en impôts sur le revenu des sociétés. Ce sont des hypothèses très difficiles à prouver à moins que le ministère ne dispose de fonctionnaires capables de vérifier sérieusement certaines de ces possibilités.

Certains jugements des tribunaux ont confirmé que le ministère a le pouvoir d'essayer d'imposer ces bénéfices des sociétés s'il semble qu'on tente délibérément d'éviter de payer l'impôt au moyen de ces transactions où l'on fixe les prix de cession interne.

Pour autant que vous puissiez en juger, avons-nous suffisamment de personnel pour vraiment contrôler ce genre de transaction? Nous faut-il plus d'employés? Combien d'impôts supplémentaires pourrions-nous percevoir auprès des sociétés si nous avions plus d'employés affectés à ce genre de tâche?

Le président: Il s'agit de la question de la fixation des prix de cession interne entre des sociétés et leurs filiales.

M. Dye: Je m'excuse de vous faire attendre, mais votre question est complexe et j'aimerais vous donner la meilleure réponse possible.

[Texte]

First, let me say how grateful I am to get some parliamentary direction on what Members of Parliament are interested in that our office might look at, because it is difficult for us to put ourselves in the mind-set of a parliamentarian and meet your needs. We are always trying to do that. We do it by surveys and so on. Here is an interest that I think will be satisfied, because I am informed that we have two notes developing this year in the general area of transfer pricing and international tax reciprocal agreements and then the enforcement of those. I have not yet seen those notes. In fact, I was unaware that we have them brewing.

In our office there is a very difficult challenge for those notes to survive. Our auditors are always finding interesting things, and when we come to Parliament with something we have to be able to substantiate it, so sometimes our notes do not survive. So I do not know if it will get to you this year, but hopefully we are addressing the areas of your indicated concerns. Let us hope that we are—

The Chairman: Is Revenue Canada doing anything on this?

Mr. Dye: Perhaps I could bring Jim Ralston to the table. Jim is the auditor responsible for that area and I was just asking him how they are fixed for staffing and what they are up to. But he could give you a more complete answer than I could. Mr. Ralston is a chartered accountant responsible for our taxation area.

• 1130

Mr. Jim Ralston (Principal, Audit Operations Branch, Office of the Auditor General of Canada): Mr. Chairman, as Mr. Dye mentioned earlier, we are in the process of doing an audit in which we are looking at Revenue Canada's audit capabilities and other enforcement capabilities. We know for certain they are organized in such a way that they have groups of people who concentrate on tax avoidance opportunities and research these regularly. We also know that at present they categorize the various firms and try to allocate their audit resources to those they feel are the highest risk.

Certainly I think the large companies—and I would speculate that perhaps the types of schemes or transfer payment arrangements you are talking about may involve large companies—would get more attention.

The Chairman: They would probably be harder to find, too.

Mr. Ralston: That is right.

Mr. Dye: Mr. Chairman, you know it is a big game out there. Every time you grow, there is a way to be found around it. People enjoy an interesting profession trying to

[Traduction]

Tout d'abord, je tiens à vous dire à quel point j'apprécie que les députés me disent quels sujets ils aimeraient voir examiner par notre bureau, parce qu'il est difficile pour nous de nous mettre à la place d'un parlementaire en vue de répondre à ses besoins. Nous essayons toujours de le faire, nous faisons des enquêtes, etc. Voilà un sujet sur lequel nous pourrions répondre à votre demande, je pense, parce qu'on me dit que nous sommes en train de préparer deux notes à propos de la question de la fixation des prix de cession interne et à propos des accords fiscaux réciproques entre pays, ainsi que de leur application. Je n'ai pas encore vu ces notes, en fait, j'ignorais même que nous étions en train de les préparer.

Dans notre bureau, il est très difficile de garder ces notes bien longtemps. Nos vérificateurs trouvent toujours des choses intéressantes, et lorsque nous nous présentons devant le Parlement, nous devons fournir des preuves à l'appui de nos notes, de sorte que nous devons parfois en jeter au panier. Je ne sais donc pas si ces notes vous parviendront cette année mais nous sommes en train d'examiner les problèmes qui vous intéressent. Espérons que nous. . .

Le président: Fait-on quelque chose à ce propos à Revenu Canada?

M. Dye: Jim Ralston pourrait peut-être s'approcher. Jim est le vérificateur chargé de cette question et je lui demandais justement de combien d'employés il disposait et ce qu'il faisait. Il pourrait cependant vous donner une réponse plus complète que moi. M. Ralston est un comptable agréé qui dirige notre section de l'impôt.

M. Jim Ralston (Directeur principal, Direction générale des opérations de vérification, Bureau du vérificateur général du Canada): Monsieur le président, comme M. Dye l'a noté tout à l'heure, nous vérifions actuellement les capacités de vérification et de recouvrement des impôts de Revenu Canada. Nous savons que, selon la structure du ministère, des groupes de personnes se penchent sur les possibilités d'évitement fiscal et font des recherches continues dans ce domaine. D'autre part, ils divisent les diverses sociétés en catégories et tentent d'affecter leurs ressources à celles qui présentent le plus haut risque.

Certainement, je crois que les grandes sociétés—et je m'attendrais à ce que ce soit les grandes sociétés qui participent aux combines, aux transferts dont vous parlez—sont examinées de plus près.

Le président: Ils est sans doute plus difficile de trouver quelque chose chez elles.

M. Ralston: Vous avez raison.

M. Dye: Monsieur le président, vous savez que, tout ça, c'est un jeu. Chaque fois que vous prenez de l'expansion, il y a un moyen de contourner les règles. Certaines

[Text]

serve their taxpaying clients to legally avoid the imposition of tax as much as they can.

The Chairman: Hear, hear.

Mr. Langdon: Do you have a sense of how many people are actually working at trying to place this issue?

Mr. Ralston: I could not venture a guess about that particular issue, Mr. Chairman.

Mr. Dye: The department will know. Perhaps they can tell you.

Mr. Gagliano: I ask two questions. One really is a kind of supplementary after the question of my colleague on the farming affair—whether you should comment or audit two years or before. I think this brings up the role of the Auditor General. Should you wait a certain number of years of a program before audit?

In the case of the GST, for example, we are still debating in the House. Last year you made comments. You expressed your concern about the implementation and the collection of such a tax and so on. My question simply is that I would like to hear from you how you perceive your role. Are you trying to prevent abuses? Do you have a role of prevention and go in as soon as possible, even before a program starts, or do you want to wait a few years and then catch the guy with his hand in the cookie jar?

The other question would be with a problem you had earlier on capital accounts, capital expenditures, when I was on the Public Accounts Committee.

Mr. Dye: Chairman, Mr. Gagliano may recall from his time on the Public Accounts Committee that the Public Accounts Committee indicated some frustration with the audit process because it was always looking backwards. Sometimes it was several years back and it was frustrating to Members of Parliament that we were not as timely as they would hope. We took note of that. Again, it was direction from Members of Parliament and we tried to respond to it.

When the infamous scientific research tax program came in, the tax was proclaimed in January. We were auditing in about April, a very fast response from our normal approach to new programs. By August we were making recommendations to the government. As you will all recall, there was a big election going on in September of that year and the then Minister of Finance did not want to vary his stated position on the benefits of the SRTC. As a consequence, the bill continued to mount.

[Translation]

personnes font une carrière très intéressante en cherchant les moyens par lesquels leurs clients contribuables pourraient, de façon légale, éviter de payer des impôts.

Le président: Bravo.

M. Langdon: Avez-vous une idée du nombre de personnes qui travaillent actuellement sur cette question?

M. Ralston: Je ne pourrais vous le dire, monsieur le président.

M. Dye: Le ministère le saura. Peut-être pourra-t-il vous le dire.

M. Gagliano: J'ai deux questions à poser. La première fait suite à la question qu'a posée mon collègue au sujet du programme de stabilisation agricole—à savoir si c'est une bonne idée de faire une vérification, ou quelque observation que ce soit, lorsque le programme est vieux de deux ans ou moins. Cela soulève des questions au sujet du rôle du vérificateur général. Devriez-vous attendre un certain nombre d'années avant d'effectuer une vérification?

Dans le cas de la TPS, par exemple, elle est encore débattue à la Chambre. L'année dernière, vous avez fait des remarques à son sujet. Vous avez exprimé vos inquiétudes au sujet de l'application et de la perception de cette taxe. Ma question, donc, porte sur votre perception de votre rôle. Cherchez-vous à prévenir les abus? Jouez-vous un rôle de prévention, qui fait que vous commencez la vérification dès que possible, même avant que le programme ne soit en place, ou bien préférez-vous attendre quelques années pour attraper le coupable la main dans le sac?

L'autre question aurait trait à un problème relié au compte de capital, aux dépenses en immobilisations, qui est survenu antérieurement, lorsque je siégeais au Comité des comptes publics.

M. Dye: Monsieur le président, M. Gagliano se rappellera peut-être que le Comité des comptes publics a ressenti une certaine frustration à l'égard du processus de vérification, car il portait toujours sur le passé. Des fois, les vérifications prenaient plusieurs années, et c'était frustrant pour les députés, qui trouvaient qu'elles n'arrivaient pas toujours au moment opportun. Nous avons pris note de ces frustrations. Encore là, les députés nous ont indiqué la voie à suivre et nous avons essayé de leur donner satisfaction.

Lors de la mise en oeuvre de l'infâme programme d'impôt pour la recherche scientifique, le projet de loi a été adopté en janvier. Nous avons effectué une vérification dès le mois d'avril, ce qui représente une réaction très rapide, comparée à notre procédure normale à l'égard des nouveaux programmes. Dès le mois d'août, nous présentions des recommandations au gouvernement. Vous vous rappellerez tous qu'il y a eu une élection en septembre de cette année et que le ministre des Finances de l'époque ne voulait pas modifier sa position sur les bienfaits du crédit d'impôt pour la recherche scientifique. Par conséquent, le projet de loi a suivi son cours.

[Texte]

We then approached the new Minister of Finance, Mr. Wilson, back in October of 1984. We gave him a month to settle in and then arrived on his doorstep and described to him the problems we foresaw. He took some action, and \$4 billion later we know the story.

That was one incident of being there fairly fast, but not before the legislation was enacted. Again, the members of the Public Accounts Committee were encouraging us to be more pro-active, if you will, to serve Members of Parliament.

• 1135

We took a crack at the pension legislation, which had been outlined to the community for several years, and there was an impact on the private sector—and the public sector too—as employers geared up to provide all the information the government wanted. We looked at it from a red tape sort of perspective. If I recall correctly, it was something—

The Chairman: Well we are looking at it right now. We have the bill.

Mr. Dye: It was something like \$300 million to gear up. For that one, I had Members of Parliament criticizing me for venturing into the land of policy because the bill had not yet been passed.

I guess I am hoist on a parliamentary petard here. You want advance information, yet if I do it I will be tagged for auditing policy before I can audit a process.

The Chairman: Well could you maybe—

Mr. Dye: My inclination is to be more forthcoming, more pro-active, and be there to help Members of Parliament if we can. I think that is what we should be doing.

The Chairman: May we call you when we get into the bill? Have you had an opportunity to take a look at the current pension bill?

Mr. Dye: I personally have not followed it in all its detail, but we do have people tracking every word.

The Chairman: Our problem is that we have the bill and the government is not adverse to having changes made in it. It seemed to be the best long-term policy—to show fairness to everybody in terms of sheltered savings. There are a lot of issues in it, as our consultant has indicated, that may put companies to the cost of doing calculations far in excess of the value of the money calculated. That is the type of thing we would be interested in hearing from you.

Mr. Dye: We brought that type of information to Parliament's attention because the Department of Finance had not. Members of Parliament were unaware that there were all these associated costs with the respect to the

[Traduction]

En octobre 1984, nous avons fait des démarches auprès du nouveau ministre des Finances, M. Wilson. Nous lui avons donné un mois pour s'établir, et puis nous sommes venus lui décrire les problèmes que nous envisagions. Il est passé à l'action, et 4 milliards de dollars plus tard, nous connaissons toute l'histoire.

Voilà un cas dans lequel nous sommes intervenus assez rapidement, mais pas avant que le projet de loi ne soit adopté. Là encore, les membres du Comité des comptes publics nous ont encouragés à agir de façon plus proactive, si je puis dire, afin de mieux servir les députés.

Nous avons examiné la loi sur les pensions, qu'on expliquait au public depuis déjà plusieurs années, et qui avait une incidence sur le secteur privé—et aussi sur le secteur public—car les employeurs se préparaient à fournir au gouvernement tous les renseignements qu'il leur demandait. Nous avons examiné la loi du point de vue de la paperasse qu'elle impliquait. Si je me souviens bien, c'était—

Le président: Eh bien, justement, nous l'examinons maintenant. Nous avons le projet de loi.

M. Dye: C'était dans les 300 millions de dollars, pour la préparation. Là, des députés m'ont accusé de m'intéresser trop tôt à la politique, étant donné que le projet de loi n'avait pas encore été adopté.

Je me retrouve donc dans une situation impossible. Vous voulez des renseignements à l'avance, mais si je cherche à les produire, on m'accusera de vérifier la politique avant que le processus ne soit en place.

Le président: Eh bien, vous pourriez peut-être—

M. Dye: Moi-même, je préférerais être plus proactif, aider les députés quand c'est possible. Je crois que c'est ce que nous devrions faire.

Le président: Pouvons-nous vous appeler lorsque nous étudierons le projet de loi? Avez-vous eu l'occasion de parcourir le projet de loi actuel sur les pensions?

M. Dye: Je n'ai pas, moi-même, suivi l'affaire dans tous ses détails, mais certains de mes collaborateurs l'ont fait.

Le président: Notre problème, c'est que nous avons le projet de loi, et le gouvernement ne s'oppose pas à ce qu'il soit modifié. Cela semblait être la meilleure politique à long terme: faire preuve d'équité à l'endroit de tous sur le plan des abris fiscaux pour l'épargne. Le projet de loi contient de dispositions, comme nous l'a indiqué notre conseiller, qui pourraient forcer les compagnies à faire des calculs dont le coût dépasserait bien la valeur de la somme calculée. Voilà le genre de chose sur lequel nous aimerions bien connaître votre opinion.

M. Dye: Si nous avons attiré l'attention du Parlement sur ce genre de renseignement, c'est parce que le ministère des Finances ne l'avait pas fait. Les députés ne savaient pas qu'il y avait tellement de coûts liés à

[Text]

implementation of the legislation. We felt it was valuable to parliamentarians to understand the cost of the process, avoiding in any way, we thought, commentary on the merits of the program.

The Chairman: You realize that the bill is substantially different from the original bill developed out of the 1984 presentation in Parliament.

Mr. Dye: We watch the evolution of legislation but we are not auditing legislation. We are auditing the implementation of legislation. We generally do not get involved in advising parliamentarians on how to structure things out in front. We would probably have to re-examine our mandate if you wanted the Auditor General to be in the forecasting business. We really looked only at the compliance costs associated with the program. These costs had been articulated for business so they could get ready.

Mr. Gagliano: When I was a member of the Public Accounts Committee, we tried have the Government of Canada report its affairs on the generally accepted accounting principle. In other words, having settled this business of cash in and cash out, having a balance sheet at the end of the year showing its assets and liabilities would allow better planning and financial control. Since then I have not heard any more about it. I am very interested in it. Is it still going on? I know you were exchanging notes on that with the United States. When will this finally come to something? It is incredible—we ask everybody else, including our taxpayers, to report on the accrual method, and we are the only ones in the country who still report on a cash basis.

I think we would get a better picture of how we are doing, especially now when we are talking of tremendously increasing our national debt and deficit. If we change the method of reporting Government of Canada transactions, Canadians would get a better picture.

Mr. Dye: Mr. Gagliano is referring to a research study which my office did jointly with the General Accounting Office, our counterpart office in the United States. We called it the "Federal Government Reporting Study". We looked at the needs of users. What kind of information do parliamentarians require on a global basis to get an understanding of how Parliament is functioning? Are they getting the information they need as Members of Parliament to assist their constituents? We found a wide variety of needs. We talked to other publics too, such as people who authorize the lending of money to governments, people who run unions and people who report in the newspapers. It was a very interesting study.

[Translation]

l'application de cette loi. Nous avons pensé utile d'expliquer aux parlementaires le coût du processus, sans, pour autant, faire quelque observation que ce soit sur les mérites du programme.

Le président: Vous êtes conscient que le nouveau projet de loi diffère considérablement du projet de loi présenté au Parlement en 1984.

M. Dye: Nous suivons l'évolution des mesures législatives, mais nous ne les vérifions pas. Nous en vérifions l'application. En général, nous ne conseillons pas les parlementaires sur la structure des projets de loi. Il faudrait sans doute que nous révisions notre mandat si vous voulez que le vérificateur général se lance dans les prévisions. En fait, nous n'avons examiné que les coûts d'observation du programme. Ces coûts-là avaient été expliqués aux entreprises afin de leur permettre de se préparer à les assumer.

M. Gagliano: Lorsque je siégeais au Comité des comptes publics, nous avons tenté de persuader le gouvernement du Canada de faire rapport de ses états financiers selon les principes de comptabilité généralement acceptés. En d'autres termes, une fois réglée cette histoire des rentrées et sorties de fonds, la production, à la fin de l'année, d'un bilan de l'actif et du passif permettrait une meilleure planification ainsi qu'un meilleur contrôle. Je n'en ai pas entendu parler depuis. C'est une question qui m'intéresse grandement. Est-ce que le processus est encore en cours? Je sais que vous échangez des notes à ce sujet avec les États-Unis. Quand cela finira-t-il par aboutir? C'est incroyable: nous demandons à tout le monde, y compris à nos contribuables, de faire une comptabilité d'exercice, et nous demeurons les seuls à continuer d'utiliser la méthode de la comptabilité de caisse.

Je crois qu'un changement de méthode nous donnerait une meilleure idée de la situation, surtout ces jours-ci, où notre dette et notre déficit national s'accroissent tellement. Si nous changions de méthode de comptabilité, les Canadiens se feraient une meilleure idée de la situation.

M. Dye: M. Gagliano parle d'une étude effectuée par mon bureau en collaboration avec nos homologues américains, le *General Accounting Office*. Le rapport s'intitulait *Federal Government Reporting Study*. Nous avons examiné les besoins des usagers. De quelle sorte de renseignements les parlementaires ont-ils besoin pour comprendre comment fonctionne le Parlement? Reçoivent-ils les renseignements qu'il leur faut, en tant que députés, pour répondre aux besoins de leurs commettants? Nous avons découvert que les besoins variaient énormément. Nous avons aussi parlé à d'autres groupes, tels les gens qui autorisent les prêts aux gouvernements, les dirigeants syndicaux et les journalistes. Ce fut une étude très intéressante.

[Texte]

[Traduction]

• 1140

Coming out of that, we produced two models of what a financial statement might look like for an industrialized democracy. I thought it was a very useful exercise that may well be worth bringing forward. The Government of Canada has responded in some way. There is a constant improvement in the accounting policies that are being articulated by the government. They are getting better. There is a long way to go. I agree with Mr. Gagliano's assertion that the cash approach is probably insufficient to provide the kind of accountability that a government should provide to the taxpayers.

Interestingly, the Government of New Zealand and the Government of New South Wales in Australia have taken that report and used it as a model. They have changed the way they are reporting to their legislatures, and I commend them for it. I think there is much more we could do. The Comptroller General of Canada is doing his best to influence the government to promote constructive change, and the government moves at its usual dizzying pace.

Mr. Gagliano: The politicians should act on that. Of course, the government would do something faster.

Mr. Langdon: I have a small comment. On some issues they do move at a dizzying pace.

The Chairman: They move through second reading at quite a rapid pace.

First of all, I want to thank you very much for coming. I think you have been most helpful to us. I think we are going to have to call you from time to time. As the committee works, it has more supervisory responsibilities. You do the audit of our two major departments, Finance and National Revenue. There are a great number of employees involved, a great number of offices involved, and a great deal of expense involved in this operation. It seems that the expense in these two departments keeps getting larger every year. Maybe we have had cut-backs in other departments, but we do not seem to ever have a cut-back in Finance and National Revenue.

Mr. Dye: Mr. Chairman, you have had cut-backs and that has reduced the revenue of the country. Cutting back on the assessment and enforcement side is costing you money.

The Chairman: Is it? All right. Well, there you are. Thank you very much.

The next meeting will be Monday at 7.30 p.m., an in camera meeting on the GST. The meeting is adjourned.

Ensuite, nous avons produit deux modèles possibles d'état financier pour une démocratie industrialisée. J'ai trouvé que l'exercice avait été très utile, et qu'il mériterait qu'on lui donne suite. Le gouvernement du Canada a réagi. Il y a une amélioration constante des politiques de comptabilité du gouvernement. Elles sont meilleures qu'elles ne l'étaient. Il reste encore beaucoup de chemin à faire. Je suis d'accord avec M. Gagliano lorsqu'il dit qu'en se servant de la comptabilité de caisse, le gouvernement ne rend sans doute pas aux contribuables les comptes qu'il devrait leur rendre.

Ce qui est intéressant, c'est que les gouvernements de Nouvelle-Zélande et de la Nouvelle-Galles du Sud, en Australie se sont servis de ce rapport comme modèle. Ils ont changé la méthode qu'ils utilisaient pour rendre compte à leur Parlement, et je les en félicite. Je crois que nous pourrions en faire beaucoup plus. Le contrôleur général du Canada fait de son mieux pour persuader le gouvernement d'apporter des changements constructifs, et le gouvernement, comme d'habitude, agit avec une rapidité vertigineuse.

M. Gagliano: Les politiciens devraient agir. Ainsi, le gouvernement agirait plus rapidement.

M. Langdon: J'ai une petite observation. Il existe quand même des questions au sujet desquelles ils agissent avec une rapidité vertigineuse.

Le président: La deuxième lecture, par exemple.

D'abord, je tiens à vous remercier d'être venus. Votre aide nous a été précieuse. Il faudra que nous vous appelions de temps en temps. Le fonctionnement du comité est tel qu'il a surtout des responsabilités de supervision. C'est vous qui effectuez la vérification de nos deux grands ministères, Finances et Revenu national. Cette opération exige un personnel important, un grand nombre de bureaux et des dépenses très élevées. Il semble, d'ailleurs, que les dépenses de ces deux ministères s'accroissent d'année en année. Il y a eu peut-être des compressions dans d'autres ministères, mais il semble que les Finances et le Revenu national aient toujours été à l'abri.

M. Dye: Monsieur le président, il y a eu des compressions, et cela a réduit le revenu du pays. Les coupures concernant la fixation et le recouvrement de l'impôt vous coûtent de l'argent.

Le président: Vraiment? D'accord. Eh bien, voilà. Merci beaucoup.

La prochaine réunion aura lieu lundi à 19 h 30; il s'agit d'une réunion à huis clos au sujet de la TPS. La séance est levée.



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WITNESSES

From the Office of the Auditor General:

Kenneth M. Dye, Auditor General;
Nancy Cheng, Principal, Audit Operations Branch;
Dennis Paproski, Principal, Audit Operations Branch;
Jim Ralston, Principal, Audit Operations Branch.

TÉMOINS

Du Bureau du Vérificateur général:

Kenneth M. Dye, Vérificateur général;
Nancy Cheng, Directeur principal, Direction générale
des opérations de vérification;
Dennis Paproski, Directeur principal, Direction
générale des opérations de vérification;
Jim Ralston, Directeur principal, Direction générale
des opérations de vérification.

HOUSE OF COMMONS

Issue No. 88

Monday, February 12, 1990
Wednesday, February 14, 1990
Thursday, February 15, 1990

Chairman: Don Blenkarn

CHAMBRE DES COMMUNES

Fascicule n° 88

Le lundi 12 février 1990
Le mercredi 14 février 1990
Le jeudi 15 février 1990

Président: Don Blenkarn

*Minutes of Proceedings and Evidence of the
Standing Committee on*

Finance

*Procès-verbaux et témoignages du Comité
permanent des*

Finances

RESPECTING:

Bill C-62, An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act

CONCERNANT:

Projet de Loi C-62, Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt



Second Session of the Thirty-fourth Parliament,
1989-90

Deuxième session de la trente-quatrième législature,
1989-1990

STANDING COMMITTEE ON FINANCE

Chairman: Don Blenkarn

Vice-Chairman:

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Yvon Côté
Clément Couture
Murray Dorin
Alfonso Gagliano
Steven Langdon
Diane Marleau
Lorne Nystrom
Jerry Pickard
Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Marie Carrière
Clerk of the Committee

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Vice-président:

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Diane Marleau
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Jerry Pickard
Lee Richardson
Pat Sobeski
René Soetens
Douglas Young—(14)

(Quorum 8)

Le greffier du comité
Marie Carrière

MINUTES OF PROCEEDINGS

MONDAY, FEBRUARY 12, 1990

(114)

[Text]

The Standing Committee on Finance met, *in camera* at 7:38 o'clock p.m. this day, in Room 112-N Centre Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Yvon Côté, Steven Langdon, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Members present: Douglas Fee for Murray Dorin; Hon. Robert Layton for Bill Attewell; Geoff Wilson for Clément Couture.

In attendance: From the Research Branch of the Library of Parliament: Basil Zafiriou, Senior Analyst and Richard Domingue, Research Officer. *From the Committee's staff:* Sean Aylward and Blake Murray, Consultants.

The Order of Reference dated Wednesday, February 7, 1990, being read as follows:

—That Bill C-62, An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act, be now read a second time and referred to the Standing Committee on Finance.

The Committee discussed its Order of Reference related to Bill C-62.

At 9:45 o'clock p.m., the Committee adjourned to the call of the Chair.

G.A. Sandy Birch
Committee Clerk

WEDNESDAY, FEBRUARY 14, 1990

(115)

The Standing Committee on Finance met at 3:32 o'clock p.m., this day, in Room 209 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Members present: Robert Layton for Bill Attewell.

Other Members present: Deborah Grey, Ross Harvey, Lyle MacWilliam, Nelson Riis and Ray Skelly.

From the Committee's staff: From the Research Branch of the Library of Parliament: Basil Zafiriou,

PROCÈS-VERBAUX

LE LUNDI 12 FÉVRIER 1990

(114)

[Traduction]

Le Comité permanent des Finances se réunit à huis clos aujourd'hui à 19 h 38, dans la pièce 112-N de l'édifice du Centre, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Don Blenkarn, Yvon Côté, Steven Langdon, Lorne Nystrom, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens et Douglas Young.

Membres suppléants présents: Douglas Fee remplace Murray Dorin; Robert Layton remplace Bill Attewell; Geoff Wilson remplace Clément Couture.

Aussi présents: Du Service de recherche de la Bibliothèque du Parlement: Basil Zafiriou, analyste principal et Richard Domingue, attaché de recherche. *Du personnel du Comité:* Sean Aylward et Blake Murray, consultants.

Lecture est faite de l'ordre de renvoi en date du mercredi 7 février 1990, dont le texte suit:

—Que le projet de loi C-62, Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt, soit maintenant lu une deuxième fois et renvoyé au Comité permanent des finances.

Le Comité délibère de son ordre de renvoi relatif au C-62.

A 21 h 45, le Comité s'ajourne jusqu'à nouvelle convocation du président.

Greffier de Comité
G.A. Sandy Birch

LE MERCREDI 14 FÉVRIER 1990

(115)

Le Comité permanent des Finances se réunit aujourd'hui à 15 h 32, dans la pièce 209 de l'édifice de l'Ouest, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Alfonso Gagliano, Diane Marleau, Lee Richardson, Pat Sobeski, René Soetens et Douglas Young.

Membre suppléant présent: Robert Layton remplace Bill Attewell.

Autres députés présents: Deborah Grey, Ross Harvey, Lyle MacWilliam, Nelson Riis et Ray Skelly.

Aussi présents: Du Service de recherche de la Bibliothèque du Parlement: Basil Zafiriou, analyste

Senior Analyst and Richard Domingue, Research Officer. *From the Committee's Staff:* Sean Aylward and Blake Murray, Consultants.

Also in attendance: From the Tax Policy and Legislation Branch of the Department of Finance: David Dodge, Assistant Deputy Minister; Michael Sabia, Director, Sales and Excise Tax Division; Al Short, Director, Legislation and Mark Jewett, Legal Counsel.

The Committee resumed consideration of its Order of Reference from the House of Commons dated Wednesday, February 7 1990, in relation to Bill C-62, *An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, The Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act*.

By unanimous consent, John Rodriguez moved,—That, the Committee travel to each Canadian province and territory so that Canadians may examine the details of Bill C-62.

And debate arising thereon;

At 5:30 p.m., the Committee adjourned to the call of the Chair.

THURSDAY, FEBRUARY 15, 1990 (116)

The Standing Committee on Finance met at 9:30 o'clock a.m. this day, in Room 209 West Block, the Chairman, Don Blenkarn, presiding.

Members of the Committee present: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Diane Marleau, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens and Douglas Young.

Acting Members present: Geoff Wilson for Bill Attewell, John Rodriguez for Steven Langdon and Dave Barrett for Lorne Nystrom.

Other Member present: Ray Skelly

From the Committee's staff: Sean Aylward, Consultant.

Also in attendance: From the Tax Policy and Legislation Branch of the Department of Finance: David Dodge, Assistant Deputy Minister; Michael Sabia, Director, Sales and Excise Tax Division and Mark Jewett, Legal Counsel.

Murray Dorin moved,—That, the Committee proceed to the Orders of the Day.

And the question being put on the motion, it was agreed to.

The Committee resumed consideration of its Order of Reference from the House of Commons dated Wednesday, February 7 1990, in relation to Bill C-62, *An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, The Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act*.

principal et Richard Domingue, attaché de recherche. *Du personnel du Comité:* Sean Aylward et Blake Murray, consultants.

Egalement présents: De la Direction de la politique et de la législation de l'impôt: David Dodge, sous-ministre adjoint; Michael Sabia, directeur, Division des taxes de vente et d'accise; Al Short, directeur, Législation; Mark Jewett, conseiller juridique.

Le Comité reprend l'étude de son ordre de renvoi en date du mercredi 7 février 1990, soit l'étude du projet de loi C-62, *Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt*.

Du consentement unanime, John Rodriguez propose,—Que le Comité visite chaque province et territoire du Canada afin que le Canadiens puissent connaître en détail le projet de loi C-62.

Sur ce, un débat s'ensuit.

A 17 h 30, le Comité s'ajourne jusqu'à nouvelle convocation du président.

LE JEUDI 15 FÉVRIER 1990 (116)

Le Comité permanent des Finances se réunit aujourd'hui à 9 h 30, dans la pièce 209 de l'édifice de l'Ouest, sous la présidence de Don Blenkarn (*président*).

Membres du Comité présents: Don Blenkarn, Yvon Côté, Clément Couture, Murray Dorin, Diane Marleau, Jerry Pickard, Lee Richardson, Pat Sobeski, René Soetens et Douglas Young.

Membres suppléants présents: Geoff Wilson remplace Bill Attewell; John Rodriguez remplace Steven Langdon; Dave Barrett remplace Lorne Nystrom.

Autre député présent: Ray Skelly.

Aussi présent: Du personnel du Comité: Sean Aylward, consultant.

Egalement présents: De la Direction de la politique et de la législation de l'impôt: David Dodge, sous-ministre adjoint; Michael Sabia, directeur, Division des taxes de vente et d'accise; Mark Jewett, conseiller juridique.

Murray Dorin propose,—Que le Comité étudie son ordre du jour.

La motion est mise aux voix et adoptée.

Le Comité reprend l'étude de son ordre de renvoi en date du mercredi 7 février 1990, soit l'étude du projet de loi C-62, *Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt*.

Clause 1 carried on division.

Clause 2 carried on division.

Clauses 3, 4, 5, 6, 7, 8, 9, 10, and 11 carried on division.

On Clause 12

Clause 12 was allowed to stand.

Clauses 13 and 14 carried.

Clause 15 carried on division.

On Clause 16

Clause 16 was allowed to stand.

At 9:36 o'clock a.m., the sitting was suspended.

At 9:55 o'clock a.m., the sitting resumed.

The Chairman made a statement to the effect that witnesses had been scheduled for the afternoon and evening meetings of Monday, February 19, 1990, in relation to the Committee's consideration of Bill C-62.

At 9:57 o'clock a.m., the Committee adjourned to the call of the Chair.

Marie Carrière
Clerk of the Committee

G.A. Sandy Birch
Committee Clerk

L'article 1 est adopté avec dissidence.

L'article 2 est adopté avec dissidence.

Les articles 3, 4, 5, 6, 7, 8, 9, 10 et 11 sont adoptés avec dissidence.

Article 12

L'article 12 est reporté.

Les articles 13 et 14 sont adoptés.

L'article 15 est adopté avec dissidence.

Article 16

L'article 16 est reporté.

A 9 h 36, la séance est suspendue.

A 9 h 55, la séance reprend.

Le président annonce que des témoins seront entendus aux séances de l'après-midi et de la soirée, le lundi 19 février, dans le cadre de l'étude du projet de loi C-62.

A 9 h 57, le Comité s'ajourne jusqu'à nouvelle convocation du président.

La greffière du Comité
Marie Carrière

Greffier de Comité
G.A. Sandy Birch

EVIDENCE

[Recorded by Electronic Apparatus]

[Texte]

Wednesday, February 14, 1990

• 1532

The Chairman: Order, please. We are resuming consideration of Bill C-62, an act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act, referred to the standing committee on Wednesday, February 7, 1990. Our reference is on clause 1.

I have as witnesses today David Dodge, Associate Deputy Minister of Finance, and Mark Jewett, general counsel.

Mr. Rodriguez, you and Mr. Barrett are apparently the new boys in town.

Mr. Rodriguez (Nickel Belt): Well, I am glad you did not say we are the old boys on the block.

I have a motion to present, as follows: That the committee travel to each Canadian province and territory so that Canadians may examine the details of Bill C-62. I have that in the two official languages.

The Chairman: Is there any discussion on the motion? Mr. Rodriguez.

Mr. Rodriguez: The last time the Finance Committee took a cook's tour—and it really was a bird's-eye view of the nation with respect to the goods and services tax—this committee was actually dragged, kicking and screaming, to travel. You, Mr. Chairman, were not interested in travelling, and what we ended up with was one visit to Vancouver, a one-day visit to Edmonton, one day in Regina, and one day in Winnipeg. You did the four Atlantic provinces and I was there and I saw it. You came in, shwoosh, right into the hotel, and I just blinked and you went shwoosh, right out the door. They said "Is it a bird? Is it a plane?" I said "No, it is Don Blenkarn and the Finance Committee." You covered the Atlantic, four provinces, in two days.

There was no visit to the province of Quebec, none at all, and the only visit in Ontario was here in Ottawa, as if everything happens here. You went to the territories: the one good part about the committee was that the subcommittee travelled to the Northwest Territories and the Yukon; from all reports I had, that was an excellent side trip.

Constituents across the country—and I have been getting letters—have opinions about the GST, and those were opinions formulated on a white paper. Now what they have are the details of the bill, and there are considerable misgivings about the bill across the land. In Brandon the other evening 1,000 Manitoba Canadians

TÉMOIGNAGES

[Enregistrement électronique]

[Traduction]

Le mercredi 14 février 1990

Le président: À l'ordre. Nous reprenons l'étude du projet de loi C-62, Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt, renvoyée au comité permanent le mercredi 7 février 1990. Notre renvoi porte sur l'article 1.

Nos témoins aujourd'hui sont David Dodge, sous-ministre associé des Finances et Mark Jewett, conseiller général.

Monsieur Rodriguez, je crois que M. Barrett et vous nous apportez un peu de sang neuf.

M. Rodriguez (Nickel Belt): Au moins, vous n'avez pas dit que ça allait saigner.

J'ai la motion suivante à présenter: que le Comité voyage dans chaque province et territoire canadien afin que les Canadiens puissent examiner les détails du projet de loi C-62. J'ai ce texte dans les deux langues officielles.

Le président: Quelqu'un veut-il discuter de cette motion? Monsieur Rodriguez.

M. Rodriguez: La dernière fois que le comité des Finances a fait une petite tournée—un petit voyage éclair à travers le pays sur la taxe sur les produits et services—il ne l'a finalement fait qu'avec la plus grande réticence après avoir essayé par tous les moyens d'y échapper. Vous-même, monsieur le président n'aviez aucune envie de voyager, et nous avons fini par organiser simplement une visite à Vancouver, un séjour de deux jours à Edmonton, un jour à Régina et un jour à Winnipeg. Vous avez fait le tour des quatre provinces de l'Atlantique, et j'étais là, et j'ai vu ce qui se passait. Je vous ai vu débarqué en coup de vent à l'hôtel, et le temps de cligner des yeux vous étiez déjà reparti. J'ai entendu les gens dire: «C'était un oiseau? Un avion?», et j'ai répondu: «Non, c'était Don Blenkarn et le Comité des finances». Vous avez fait le tour des quatre provinces de l'Atlantique.

Vous n'êtes même pas aller au Québec, et pour l'Ontario vous vous en êtes tenu à Ottawa, comme si tout ce passait ici. Vous êtes allé dans les Territoires: le seul aspect positif de ce Comité, c'est que le sous-comité est allé dans les Territoires du Nord-Ouest et au Yukon; d'après tous les rapports que j'ai entendus, ce petit détour a été très fructueux.

Les électeurs de toutes les régions du pays—et leur correspondance en atteste—ont une opinion sur la TPS, une opinion qu'ils ont façonnée à partir d'un livre blanc. Ils connaissent maintenant le détail de ce projet de loi, qui suscite énormément d'appréhension dans tout le pays. A Brandon, l'autre soir, 1,000 Manitobains se sont réunis

[Texte]

gathered and tried to tell the local MP their reactions to the GST. I want to tell, you that Progressive Conservative Member of Parliament had one of the roughest rides I have ever seen.

• 1535

I have received correspondence from the Atlantic, from people who said they wanted to appear when the super committee came through but they had no chance to appear, they were not selected. That was the other thing, sir, the very narrow selection.

I know you were not interested in going around the country to listen to a bunch of nobodies repeat the same thing over and over, but there is a thing called democracy. People want their grievances heard and they expected the Finance Committee would at least give them the opportunity to be heard, because it is extremely important that they be heard on these matters.

I have received, for example, letters from the undertakers of this country. Undertakers play a very important role in society. In fact they have developed a fund where senior folk have put aside money for their burial; there is about \$300 million in the pot. Now we get this 7% GST. They tell me, what are we going to do, go back to these senior folk and say, that funeral you gave me \$6,000 for, you have to give me another \$420? Where are they going to get the money? They are not going to get the money.

I hear, Mr. Chairman, that stockbrokers are exempt from paying the GST. Now, can you believe that?

Mr. Barrett (Esquimalt—Juan de Fuca): No.

Mr. Rodriguez: Track, horserace tracks, track touts are taxed the 7%; but stockbrokers who do exactly the same job, they tout stocks, they do not pay the 7% GST. People are asking if there is a connection between the fact the Minister of Finance was a stockbroker and is looking after his friends. There is a question there—there is a very serious question.

There is a question about small shopkeepers in my riding and across the country who say what a scam, if I heat the muffin in the microwave I have to charge the customer the 7%.

I want to tell you what this GST is going to do: it is going to drive the economy underground. I saw a fellow last night fix somebody's plumbing; he cleaned it up in 15 minutes and he said to the homeowner: that is \$240 if I give you a receipt; if I do not give you a receipt it is \$60.

Mr. Chairman, I want to tell you there are a lot of complaints.

[Traduction]

pour essayer de faire part au député local de leurs réactions à la TPS. Je tiens à vous dire que j'ai rarement vu quelqu'un se faire autant houspiller que ce député progressiste-conservateur.

J'ai reçu des lettres de gens de la région atlantique qui me disaient qu'ils auraient bien voulu comparaître devant le super-comité qui est venu dans leur région, mais qu'ils n'avaient pas été sélectionnés. Car c'est cela l'autre problème, on faisait une sélection très sévère.

Je sais que vous n'aviez aucune envie de parcourir le pays pour entendre une foule de gens sans importance répéter indéfiniment la même litanie, mais il existe quand même quelque chose qui s'appelle la démocratie. Les gens veulent exprimer leurs doléances, et ils espéraient que le Comité des finances leur donnerait au moins l'occasion de se faire entendre. En effet, il est extrêmement important que les Canadiens puissent se faire entendre sur ce genre de question.

J'ai reçu, entre autres, des lettres d'entrepreneurs de pompes funèbres. Les entrepreneurs de pompes funèbres jouent un rôle très important dans la société. En fait, ils ont créé un fonds permettant aux personnes âgées de mettre de l'argent de côté pour leur enterrement; il y a à peu près 300 millions de dollars dans cette caisse actuellement. Voilà qu'arrive cette TPS de 7 p. 100. Alors ils me demandent ce qu'ils doivent faire, s'ils doivent aller trouver ces personnes âgées et leur dire: à propos, ces \$6,000 que vous m'avez donnés l'an dernier pour votre enterrement, il faut y ajouter \$420. Où vont-elles trouver cet argent? Elles ne vont pas l'avoir.

J'apprend, monsieur le président, que les courtiers vont être exonérés de TPS. Vous ne trouvez pas ça incroyable?

M. Barrett (Esquimalt—Juan de Fuca): Si.

M. Rodriguez: Dans le domaine des courses de chevaux, les pronostiqueurs sur les hippodromes doivent payer la taxe de 7 p. 100; mais les courtiers, qui font exactement la même chose, qui refilent des tuyaux boursiers, ne paient pas la TPS de 7 p. 100, eux. Certains se demandent si ce n'est pas parce que le ministre des Finances était autrefois courtier qu'il veut protéger ainsi ses amis. On peut se poser la question, et c'est une question très grave.

Les petits commerçants de ma circonscription et de tout le pays sont scandalisés d'être obligés de faire payer une taxe de 7 p. 100 à un client s'ils lui chauffent simplement son muffin au micro-ondes.

Je vais vous dire ce que va faire cette TPS: elle va couler l'économie. J'ai vu un plombier hier soir qui faisait une réparation chez quelqu'un; il en a eu pour un quart d'heure et il a dit au propriétaire: c'est \$240 si je vous donne un reçu, sinon c'est \$60.

Monsieur le président, croyez-moi, beaucoup de gens sont mécontents.

[Text]

Mr. Dorin (Edmonton Northwest): Did you report him to Revenue Canada?

Mr. Rodriguez: I do not work for the RCMP and I do not work for the tax department.

Mr. Richardson (Calgary Southeast): He was NDP, was he? He does not want to pay his share.

Mr. Rodriguez: That is the other complaint. They say they are not going to be tax collectors any more. They are not going to be tax collectors any more. People are sick and tired of collecting tax; they are sick and tired of paying tax.

Mr. Chairman, I know that you have an aversion to travel. I understand you have a fear of flying, and I understand that. You and Mogilny can go on the same bus. I understand the problem very well; I had it too. I recall when I was first elected here, I had a very great fear of flying and I used to try to take the bus. In those old days, it was the old milk run; by the time I got here it would be the middle of the week. Now I have gotten over the fear of flying.

The Chairman: You went back home and did nothing. Now you have lots of gas.

Mr. Rodriguez: Well, Mr. Chairman, I need it here to deal with you and this Finance Committee. I need the gas.

The Chairman: You need the gas, all right.

Mr. Rodriguez: I want to assure you I think it is appropriate that the committee travel. I mean, you heard—

The Chairman: You have made your speech at this point.

Mr. Rodriguez: I am not finished.

The Chairman: Let us let somebody else talk about it.

Mr. Rodriguez: Well, does anybody else want the floor?

Mr. Barrett: Yes, I want the floor.

The Chairman: Mr. Barrett wants the floor. I thought you would let him, because this is the first time we have ever seen him here.

• 1540

Mr. Barrett: It may not be the last. You might be lucky. Mr. Chairman, what we really want is some open skies for this committee. We want some opportunity for Canadian taxpayers to come this committee and explain how they are having problems with it.

The Chairman: I would have thought you would be in Vancouver when we were there for two days.

Mr. Barrett: I would have been in Vancouver if I had had this book that I brought along with me. This is the first time people out there have had a chance to look at some of the material in detail, and I have had a lot of

[Translation]

M. Dorin (Edmonton-Nord-Ouest): Vous l'avez dénoncé à Revenu Canada?

M. Rodriguez: Je ne suis pas employé de la GRC ni du ministère de l'Impôt.

M. Richardson (Calgary-Sud-Est): C'était un néo-démocrate, n'est-ce pas? Il ne veut pas faire sa part.

M. Rodriguez: C'est justement un autre sujet de plainte. Les gens ne veulent plus jouer au perceuteur. Ils en ont assez de percevoir des taxes; ils sont excédés de payer sans arrêt des taxes.

Monsieur le président, je sais très bien que vous détestez voyager. Je sais que vous avez peur en avion, et je le comprends. Vous pourriez prendre le même autobus, vous et Mogilny. Je vous comprends très bien, j'ai connu ce problème moi aussi. Je me souviens qu'à nos débuts comme député, j'avais très peur de prendre l'avion et je prenais régulièrement l'autobus. À l'époque, c'était encore le vieil omnibus; je mettais la moitié de la semaine à arriver ici. Maintenant, je n'ai plus peur de l'avion.

Le président: De retour dans votre circonscription, vous vous écrouliez. Maintenant, vous êtes gonflé à bloc.

M. Rodriguez: Monsieur le président, c'est ici que j'ai besoin de toute mon énergie pour vous affronter ainsi que le Comité des finances.

Le président: C'est sûr, il faut de l'énergie.

M. Rodriguez: Je tiens à vous dire que j'estime que le Comité doit voyager. Vous avez entendu. . .

Le président: J'ai entendu votre discours.

M. Rodriguez: Je n'ai pas fini.

Le président: Laissons la parole à quelqu'un d'autre.

M. Rodriguez: Quelqu'un d'autre veut prendre la parole?

M. Barrett: Oui, moi.

Le président: Monsieur Barrett veut la parole. Je pensais bien que vous alliez la lui laisser puisque c'est la première fois que nous le voyons ici.

M. Barrett: Mais peut-être pas la dernière. Vous allez peut-être avoir de la chance. Monsieur le président, ce que nous demandons à ce Comité, c'est de faire la même chose que la conférence Ciels ouverts. Nous voulons permettre aux contribuables de venir expliquer les problèmes que leur cause la TPS.

Le président: Je m'attendais à vous trouver à Vancouver quand nous sommes allés y passer deux jours.

M. Barrett: J'y aurais été si j'avais eu ce document que j'ai apporté. C'est la première fois que les gens de là-bas ont pu se pencher sur le détail de la TPS, et on m'a posé beaucoup de questions à ce sujet. Nous avons ici douze

[Texte]

questions about this. We have here 12 separate pamphlets for 12 areas that you—through this committee—have identified. I think that is really tremendous work on this committee. I think you deserve a lot of credit. You discovered that people have questions. As a result of discovering that people have questions, you have taken the first step to answer them.

You wrote a pamphlet for real estate agents. Would it not be nice if the real estate agents in British Columbia had a chance to sit down with you and ask you questions about this pamphlet? Do you expect them to understand it simply because you wrote it? Here is another one for commission agents. They can telephone, can they? That is no attitude to take toward the citizens of this country. They expect their politicians to come to where they are.

Mr. Chairman, I expect you to protect me from interruptions. I am a new member here and I want to just come out and say what I have to say without interruption.

The Chairman: I thought you were part of a goon squad.

Mr. Barrett: Mr. Chairman, you would not say a thing like that, especially—

The Chairman: The regular members are afraid to make these statements.

Mr. Barrett: Mr. Chairman, you are just a surrogate for the minister when you talk that way. I thought you were the tough guy who had an independent stand. As an independent stand—look at this one, “Information for Commission Agents”. You send out a pamphlet and you think that is enough? There are people out there who are trying to make a living, to survive in a very tough economy where money does not grow on trees. They want a chance to come to this committee and ask about this pamphlet.

Here is another one, “Information for Tutors and Instructors”. You have taken the point to isolate their concerns, you give them one shot and that is it. If you are going to print the pamphlets, go out and listen to them. Farmers and fishermen—do you think they have the time to come to Ottawa? Do you think the farmers and fishermen of this country have the time to come to this committee to ask questions about a pamphlet you sent them? Not at all. If you want to be fair to the farmers and fishermen you go out and hear what they have to say.

Here is another one for convenience stores. They are self-employed tradespeople. Self-employed people coming to Ottawa to pay their—sure it is good stuff, but they have the right to appear in front of the committee on their own turf. It is a one-way street we have right now. It is \$14-million worth of one-way street. People have a right to be in front of their politicians in their hometowns, especially when you have this kind of information going

[Traduction]

brochures différentes pour les douze domaines que vous avez dégagés par l'intermédiaire du Comité. Je crois que c'est un travail énorme et vous méritez d'en être félicité. Vous vous êtes rendu compte que les gens avaient des questions à poser. Et vous avez pris une première initiative pour y répondre.

Vous avez rédigé une brochure pour les agents immobiliers. Nous ne pensons pas que ce serait une bonne chose que les agents immobiliers de la Colombie-Britannique aient l'occasion de discuter directement avec vous de cette brochure? Vous pensez qu'ils vont pouvoir la comprendre simplement parce que c'est vous qui l'avez rédigée? En voici une autre pour les agents rénumérés à commission. Ils ont un téléphone, n'est-ce pas? Ce n'est pas comme cela que l'on doit traiter les Canadiens. Ce qu'ils souhaitent, c'est que les politiciens viennent les rencontrer chez-eux.

Monsieur le président, j'espère que vous allez faire en sorte que je ne sois pas interrompu. Je suis nouveau ici et je souhaiterais pouvoir dire ce que j'ai à dire sans être interrompu.

Le président: Je croyais que vous étiez des tonton-macoutes.

M. Barrett: Monsieur le président, vous ne devriez pas dire une chose pareille, surtout que. . .

Le président: Les simples membres du Comité ont peur de dire ce genre de choses.

M. Barrett: Monsieur le président, en disant cela, vous vous faites le lardin du ministre. Je croyais que vous étiez une forte tête qui tenait à son indépendance. À propos d'indépendance, regardez donc ceci: «Renseignements à l'intention des agents et vendeurs à commission». Vous envoyez une brochure et vous pensez que cela suffit? Cela s'adresse à des gens qui essaient de gagner leur vie, de survivre dans une économie très précaire, où l'argent ne pousse dans les arbres. Ces gens-là veulent pouvoir demander des explications au Comité sur cette brochure.

En voici un autre: «Renseignements à l'intention des professeurs indépendants et instructeurs». Vous avez décidé d'accorder une attention particulière à leurs préoccupations, vous réglez cela d'un trait de plume, et c'est tout. Si vous décidez de publier ces brochures, allez écouter les gens. Vous croyez que les agriculteurs et les pêcheurs ont le temps de venir à Ottawa? Vous croyez que les agriculteurs et les pêcheurs du Canada ont le temps de venir poser des questions au Comité sur cette brochure que vous leur avez envoyée? Certainement pas. Si vous voulez être juste avec eux, allez les écouter.

En voici une autre pour les dépanneurs. Ce sont des commerçants indépendants. Faire venir ces gens-là à Ottawa—bien sûr que c'est très bien, mais ils ont le droit de comparaître devant le Comité sur leur propre terrain. Pour l'instant, tout marche à sens unique. C'est une dépense de 14 millions de dollars à sens unique. Les gens ont le droit de rencontrer leurs politiciens chez eux, surtout si on leur adresse ce genre d'information. En voici

[Text]

to them. Here is one on housing, another on barbers and hairstylists. Maybe some hairstylists have enough money to get down here, but I know a lot of barbers who do not and some hairstylists probably do not either. You know what happened in New Zealand when this tax was brought in by my political compatriots? It was a disaster.

Mr. Soetens (Ontario): The government got re-elected—

Mr. Barrett: Are they going to get re-elected again? When you compare New Zealand—

The Chairman: With an overwhelming majority, I think.

Mr. Barrett: —they are a unitary state. We have ten provinces, nine of which compete for the sales tax. New Zealand does not have the same situation. New Zealand is a unitary state. Go to the provinces—go to Alberta. I would like to see this committee travel to Alberta. I would like to see all the MPs from Alberta sit there and discuss how they are going to collect the taxes on barbers and hairstylists of Calgary. I am sure the people of Calgary would welcome the committee.

“Information for Travel Agents and Tour Operators”, “Information for Dealers in Used Cars”—do not turn back the odometer. What else goes on? “Information for Exporters”. “Information for Small Business”. Let us take a look at this book.

• 1545

My good friends, some of whom I have met for the first time just today—and I hope you will stay my good friends—I refer you to page 19, “Impact of the cash-flow change.” You are running a small business and you are sitting at home with a glass of wine you bought before the GST came in, you are relaxed and you are just starting to take a drink and you realize tomorrow you have to sell your fruits and vegetables and this is what Don and the gang are telling you. Listen to this:

Impact of the cash-flow change. Here are the implications for this store's cash flow of eliminating FST and adding a 7% GST:

A) Cost of financing existing FST. Average stock in hand (\$400,000 divided by 4 turnovers each year) \$100,000. FST paid on stock in hand \$5,000. Annual cost to finance FST (\$5,000 x 12%) \$600.

B) Cash-flow advantage of GST. Interest on GST collected on sales (\$600,000 x 7% x 1% per month x 2.5) \$1,050. Less financing cost of GST on overhead and supplies (\$50,000 x 7% x 1% per month x 2.5%). Financing cost for GST on inventory, \$400,000.

[Translation]

une autre sur le logement, et une autre sur les coiffeurs. Il y a peut-être des coiffeurs qui ont les moyens de se payer un voyage à Ottawa, mais je connais bien des barbiers et des coiffeurs qui ne les ont pas. Vous savez ce qui s'est passé en Nouvelle-Zélande quand mes compatriotes politiques ont introduit là-bas cette taxe? Cela a été un désastre.

M. Soetens (Ontario): Le gouvernement a été réélu. . .

M. Barrett: Va-t-il être de nouveau réélu? Quand on compare la Nouvelle-Zélande. . .

Le président: À une majorité écrasante, je crois.

M. Barrett: . . . c'est un État unitaire. Nous avons dix provinces dont neuf ont une taxe de vente. La Nouvelle-Zélande n'est pas dans la même situation. C'est un pays unitaire. Mais allez donc dans les provinces, allez en Alberta. J'aimerais bien que le Comité aille en Alberta. J'aimerais bien voir tous les députés de l'Alberta aller expliquer aux barbiers et aux coiffeurs de Calgary comment ils vont leur faire payer la taxe. Je suis sûr qu'ils seraient bien accueillis.

«Renseignements à l'intention des agents de voyage et voyageurs», «renseignements à l'intention des vendeurs de véhicules d'occasion»—ne ramenez pas le compteur kilométrique en arrière. Quoi d'autre encore? «Renseignements à l'intention des exportateurs». «Renseignements à l'intention de la petite entreprise». Regardons cette brochure d'un peu plus près.

Mes bons amis—il y en a parmi vous que je rencontre pour la première fois aujourd'hui—j'espère que nous allons rester bons amis. Permettez-moi de vous renvoyer à la page 19, «Incidence sur l'encaisse». Vous avez une petite entreprise et vous êtes tranquillement installé chez vous devant une bouteille de vin que vous avez achetée juste avant l'entrée en vigueur de la TPS. Vous êtes tranquille et décontracté et vous commencez à siroter votre verre quand, tout d'un coup, vous vous souvenez que c'est le lendemain que vous allez devoir vendre vos fruits et vos légumes selon les règles édictées par Don et ses acolytes. Ecoutez bien:

Incidence sur l'encaisse. Voici l'incidence sur l'encaisse de ce commerce de l'élimination de la TFV et de l'entrée en vigueur de la TPS à 7 p. 100:

A) Coût de financement de la TFV existante. Stock moyen en main (\$400,000 divisé par 4 écoulements par année): \$100,000. TFV payée sur le stock: \$5,000. Coût de financement annuel de la TFV (\$5,000 x 12 p. 100): \$600.

B) Avantages de la TPS du point de vue de l'encaisse. Intérêt sur la TPS perçue sur les ventes (\$600,000 x 7 p. 100 x 1 p. 100 par mois x 2,5): \$1,050. Moins coût de financement de la TPS sur les fournitures et frais généraux (\$50,000 x 7 p. 100 x 1 p. 100 par mois x 2,5

[Texte]

Who the hell makes any sense out of this?

Mr. Soetens: It is \$1.98.

Mr. Barrett: I want to tell you, Mr. Chairman. . . You do? Then you are the guy who should be out there in public facing the small-businessman who is trying to make sense out of this.

Mr. Richardson: This whole committee went to your riding and you were not there.

Mr. Barrett: You know, Mr. Speaker—

Mr. Rodriguez: You were in like a flash—Flash Gordon.

Mr. Barrett: What are you afraid of? What is this committee afraid of? I am expecting unanimous approval for the idea of travelling. I am expecting that every full-blooded Member of Parliament wants to see the people of Canada, see them face to face on this committee, to discuss it with them openly and frankly. Otherwise, Mr. Chairman, the people of Canada will get the idea that this committee is trying to railroad something through. They are trying to ram something down taxpayers' throats when people have not had a chance to respond to this material on a face to face basis with the committee.

It would not take much, Mr. Chairman. It is a big country, but we can take the time to travel. We can go on airplanes. We can go out to Victoria, Vancouver. We can go to Calgary. I can think of a wonderful place: what greater province to go to than Alberta? Alberta does not have a sales tax. This is a brand-new experience for them. Do you not think they have a right to see Members of Parliament giving them that brand-new experience?

I would think the Members of Parliament from Alberta would be insistent that not only are they proud of this tax but they also want to go to Alberta and face the people.

Mr. Rodriguez: One of them is here, and he supports it.

Mr. Barrett: Two of them.

Mr. Rodriguez: Two of them, and they support it.

Mr. Barrett: I am sure their constituents would love to see them at home, because they could give them an up-front explanation.

Mr. Dorin: I was there for a meeting.

Mr. Barrett: That is good.

Mr. Rodriguez: And you survived.

Mr. Barrett: That is right. I think you would survive another meeting.

Mr. Dorin: I received a standing ovation for my speech.

[Traduction]

p. 100). Coût de financement de la TPS sur le stock: \$400,000.

Qui est capable de démêler cela?

M. Soetens: C'est \$1.98.

M. Barrett: Je vous assure, monsieur le président. . . vous? Alors c'est vous qui devriez aller rencontrer publiquement ces petits commerçants qui essaient d'y comprendre quelque chose.

M. Richardson: Tout le Comité est allé dans votre circonscription et vous n'étiez même pas là.

M. Barrett: Vous savez, monsieur le président. . .

M. Rodriguez: Vous êtes passé comme une flèche—flèche Gordon?

M. Barrett: De quoi avez-vous peur? De quoi le Comité a-t-il peur? Je pense qu'il devrait approuver à l'unanimité l'idée de voyager. Je pense que tous les députés qui ne sont pas des demi-portions tiennent à rencontrer les Canadiens, à les entendre, à discuter ouvertement et franchement de la situation avec eux. Sinon, monsieur le président, les Canadiens vont avoir l'impression que notre Comité essaie de les entuber, qu'il essaie de faire avaler aux contribuables des dispositions dont ils n'ont même pas eu l'occasion de discuter face à face avec le Comité.

Il ne faudrait pas grand chose, monsieur le président. Nous sommes un grand pays, mais nous pouvons prendre le temps de voyager. Nous pouvons prendre l'avion. Nous pourrions aller à Victoria, à Vancouver. Nous pourrions aller à Calgary. J'ai une idée géniale, quelle province serait mieux choisie que l'Alberta? L'Alberta n'a pas de taxe de vente. C'est donc une expérience tout à fait nouvelle pour ces gens-là. Vous ne pensez pas qu'ils ont le droit de rencontrer des députés pour discuter de cette expérience toute nouvelle?

J'imagine que les députés albertains tiennent à réaffirmer non seulement qu'ils sont fiers de cette taxe, mais qu'ils veulent aussi aller en discuter face à face avec les Albertains.

M. Rodriguez: Il y en a un ici qui appuie cette idée.

M. Barrett: Deux.

M. Rodriguez: Deux qui sont en faveur.

M. Barrett: Je suis sûr que leurs électeurs seraient ravis de les rencontrer chez eux, parce qu'ils pourraient leur expliquer sur place de quoi il retourne.

M. Dorin: J'y suis allé pour une réunion.

M. Barrett: C'est bien.

M. Rodriguez: Et vous avez survécu.

M. Barrett: Effectivement. Je pense que vous pourriez survivre à une autre rencontre.

M. Dorin: Mon discours a été salué par une véritable ovation.

[Text]

Mr. Barrett: A standing ovation—two people at a telephone booth.

Mr. Layton (Lachine—Lac-Saint-Louis): That is what Mr. Barrett is used to.

Mr. Barrett: Mr. Chairman, the Minister of Finance said he would publicly challenge anybody to a debate. I believed him. I took him up on that. He did not mean it. If the Minister of Finance says publicly that he will debate someone at any time, anywhere, on this issue and he does not keep his word, the least we can do as a committee is to travel out there and give the people an opportunity. I know I have convinced everybody on this committee.

Mr. Soetens: Not quite.

Mr. Barrett: Open skies for the Finance Committee. Let us go out where the people are. What are you afraid of? What have you got to hide?

Mr. Chairman, you do not want your reputation to be tarnished as a guy who tried to railroad something through—that tough, independent member image you have created will go right down the tube. I do not want that to happen. It is not fair.

The Chairman: Does anybody else have another comment to make? We have heard you, Mr. Rodriguez.

Mr. Rodriguez: No, no—Mr. Young?

Mr. Young (Gloucester): I am just waiting to see if any of the government members. . .

The Chairman: Let us put the question.

Mr. Rodriguez: No, no.

Some hon. members: No, no.

The Chairman: I do not see any reason why the question should not be put like any other—

Mr. Rodriguez: Mr. Chairman, I am sorry—

Mr. Young: Mr. Chairman, if I may, there are two things I want to point out. One is that depending on how the afternoon goes—we have been through this before—out of courtesy I think we want to deal with the officials either by asking them to return at another time or to listen to them this afternoon. I would hope we would decide on that before too long. I know they have other things to do.

With respect to the motion put forward by my friend Mr. Rodriguez of the New Democratic Party, I must say that in listening to Mr. Barrett, it is good to see the NDP participating in the GST debate. We did a lot of work in the fall travelling the country. I must say that perhaps in the leadership campaign he acquired a taste for cross-country travel. That is something we have to look at very seriously.

[Translation]

M. Barrett: Une ovation—deux personnes dans une cabine téléphonique.

M. Layton (Lachine—Lac-Saint-Louis): C'est à cela que M. Barrett est habitué.

M. Barrett: Monsieur le président, le ministre des Finances a dit qu'il était prêt à défier n'importe qui de venir discuter de la question. Je l'ai cru. Je lui ai dit que je relevais le défi. Mais, en fait, il n'était pas sérieux. Si le ministre des Finances dit publiquement qu'il est prêt à discuter n'importe quand et n'importe où de cette question, mais qu'il ne tient pas sa parole, le moins que notre Comité puisse faire, c'est d'aller à la rencontre des gens pour leur donner cette possibilité de discuter. Je suis sûr que j'ai convaincu tous les membres de ce comité.

M. Soetens: Pas tout à fait.

M. Barrett: Les ciels ouverts aussi pour le Comité des Finances. Allons rencontrer les gens. De quoi avez-vous peur? Qu'avez-vous à cacher?

Monsieur le président, vous n'avez certainement pas envie qu'on ternisse votre réputation, qu'on vous accuse d'avoir joué les rouleaux compresseurs; votre image de député indépendant et coriace serait définitivement liquidée. Ce serait vraiment dommage. Ce ne serait pas juste.

Le président: Quelqu'un d'autre veut intervenir? Nous vous avons déjà entendu, monsieur Rodriguez.

M. Rodriguez: Non, non—Monsieur Young?

M. Young (Gloucester): Je vais simplement voir si les députés gouvernementaux. . .

Le président: Passons au vote.

M. Rodriguez: Non non.

Des voix: Non non.

Le président: Je ne vois pas de raison de ne pas passer au vote puisque. . .

M. Rodriguez: Monsieur le président, je suis désolé. . .

M. Young: Monsieur le président, si vous le permettez, j'aimerais signaler deux choses. Tout d'abord, étant donné ce qui peut se passer au cours de l'après-midi—et nous avons déjà connu cela dans le passé—je crois que nous devrions, par courtoisie, commencer par nous occuper des fonctionnaires convoqués, soit en leur demandant de revenir une autre fois, soit en les écoutant cet après-midi. J'aimerais que nous nous décidions là-dessus rapidement. Je sais qu'ils ont d'autres chats à fouetter.

En ce qui concerne la motion de mon ami M. Rodriguez, du Nouveau parti démocratique, je dois dire que je suis heureux de constater en écoutant M. Barrett que le NPD participe au débat sur la TPS. Nous avons fait beaucoup de travail à l'automne en parcourant le pays. Peut-être s'est-il découvert un goût pour les voyages dans tout le Canada à l'occasion de la campagne pour l'investiture. Nous devrions très sérieusement penser à nous déplacer.

[Texte]

I do want to state, with respect to the agenda of this committee, that if there is not going to be any consensus this afternoon, we should return to what we had decided previously. We should sit and make sure we understand exactly how we are going to deal with this. We feel very strongly that there has to be an opportunity for people to be heard.

• 1550

If we are going to travel the country, we should decide that and have an open and frank discussion about it among ourselves. We can open it to the public, but I do not think we need to have officials present to do that.

Mr. Chairman, I do want to say that in the last few days there has been concern about the way we are communicating the message—whether you are against the GST, as we are, or you are for it, as members of the government on this committee are. For example, I have been asked to debate, subsequent to a challenge that was issued by the Minister of Finance in the House to brief the then leader of the Liberal Party on the GST. He offered the same courtesy to the new leader of the New Democratic Party. Subsequent to that, he agreed to public debates.

The debate we are going to be involved in in Edmonton—and this is why I have some sympathy for my friend's request for a public discussion of this on a travelling basis—will cost Edmontonians \$100 to attend. It is by invitation only. The format is one hour, with 15 minutes, 15 minutes, a little bit of a rebuttal, and then questions from the audience selected by the organizers of the debate. I am going to attend that debate, because obviously it is an important opportunity to at least confront the minister with respect to the GST. But I must say it flies in the face of any real commitment of allowing Canadians to participate with either the Minister of Finance or Members of Parliament in open and free debate.

We have developed a certain level of frustration in all parts of the country on the basis of people not having easy access—either to be heard by the committee or entry to some of the buildings where committee hearings were being held. I do not want to be petty about it, because that was an experience we went through last fall, and it is behind us. But surely we recognize that in our case alone, a couple of weeks ago we presented petitions and documentation with in excess of half a million signatures protesting the GST.

I think there is a real concern among Canadians that we cannot continue to function, in airing the issues surrounding GST, by saying we play to select audiences, very exclusive kinds of groups, where it costs \$100. Even if you have \$100, you cannot get to participate or even

[Traduction]

En ce qui concerne le programme de notre comité, si nous ne parvenons pas à un consensus cet après-midi, nous devrions revenir à ce que nous avons décidé initialement. Nous devrions essayer de nous entendre exactement sur ce que nous allons faire. Nous affirmons, quant à nous, qu'il faut que les gens puissent se faire entendre.

Si nous devons voyager, il faut en décider et avoir une discussion franche et ouverte. Nous pouvons ouvrir cette discussion au public, mais je ne pense pas qu'il soit nécessaire d'imposer cette discussion à des hauts fonctionnaires.

Monsieur le président, je tiens à dire que depuis quelques jours se manifeste une certaine inquiétude sur la façon dont nous communiquons le message—qu'on soit contre la TPS comme c'est notre cas, ou pour, comme c'est le cas des représentants de la majorité. On m'a par exemple demandé de venir participer à un débat à la suite d'un défi lancé à la Chambre par le ministre des Finances qui proposait une discussion avec le chef du parti libéral de l'époque sur la TPS. Il a adressé la même proposition au chef du Nouveau parti démocratique, et il a ensuite consenti à ce que ce débat soit public.

Le débat auquel nous allons participer à Edmonton—et c'est pourquoi je suis assez d'accord avec la demande de mon ami qui réclame une discussion publique à l'occasion d'un voyage du Comité—coûtera 100\$ par personne aux habitants d'Edmonton qui y participeront. C'est un débat uniquement sur invitation. Il doit durer une heure, suivi de 15 minutes, 15 minutes seulement pour la réfutation, et ensuite il y aura une période de questions du public canalisées par les organisateurs du débat. Je vais participer à ce débat, puisque c'est évidemment une occasion importante de mettre le ministre sur la sellette à propos de la TPS. Mais je dois dire qu'il serait grotesque de prétendre qu'on respecte ainsi l'engagement de permettre aux Canadiens de participer à un débat franc et ouvert avec le ministre des Finances ou les députés.

Les Canadiens un peu partout dans le pays sont de plus en plus frustrés de ne pas pouvoir se faire entendre par le Comité ou accéder aux locaux où se tiennent les audiences du comité. Je ne veux pas faire preuve de mesquinerie; puisque cette expérience remonte à l'automne dernier, c'est du passé. Mais il faut tout de même reconnaître que nous avons nous-mêmes présenté il y a une quinzaine de jours des pétitions et des documents rassemblant plus d'un demi millions de signatures d'opposants à la TPS.

Je crois que les Canadiens commencent à trouver inadmissible qu'on continue à dire que la discussion sur la TPS va être limitée à des publics très restreints, des interlocuteurs exclusifs qui paieront 100\$ par personne. Et même si vous avez 100\$, vous ne pourrez venir

[Text]

listen to the debate in person unless you are invited by the Chamber of Commerce.

I do not really see that we have been opening up the issue for the proper kind of discussion. If we are going to deal with the *modus operandi* of the committee, with respect to travel and hearing witnesses and so forth, and it is going to be a drawn out discussion, we are prepared to participate in that. But I do not believe it is courteous to our witnesses here today to beat around the bush for hours on this. There are other things they could be profitably applying themselves to, how to try to find other ways of raising money in Canada besides by means of the GST.

Mr. Soetens: Mr. Chairman, I have to take some exception to some of the comments I have heard this afternoon. This committee travelled last fall, and when we travelled we did more than take a bird's eye view of Canada. We were not dragged out there, kicking and screaming. There was never, certainly in my position, any objection to travelling across Canada.

The cities we travelled to were chosen by the representatives of all three parties. The witnesses we heard were chosen by representatives of all three parties. The schedule we established was established by representatives of all three parties. We allocated time in each city based on the witnesses who had indicated to us that they were interested in appearing before the committee. We listened to those witnesses, and in fact where possible we added some additional witnesses who had requested to appear.

So I do take some exception to the idea that the travelling which took place on the part of this committee was not conducive to full input by the public. I would suggest, to the contrary, that it met with all of the requirements that all three parties were looking for.

I do not recall any great debate in this committee after the travel plan was set. Members opposite did not say that is not enough, you have to do more. We travelled on a plan that was agreed to by all three parties. I now get the sense—and maybe I am interpreting it wrongly—that some members who are commenting are suggesting that they did not have really full input to the schedule and it was not really what they had in mind.

• 1555

I guess I say to you that I believe we met the requirements. We met with all kinds of people, from witnesses. . . In fact, we heard more witnesses than I think any other committee in the life of this Parliament. We travelled more extensively than any other committee in this Parliament, and possibly in any Parliament of Canada.

So I guess that I disagree in principle with the comments that are being expressed by some members

[Translation]

participer au débat ou même simplement l'écouter en personne que si vous y êtes invité par la Chambre de commerce.

Je crois que nous n'avons pas vraiment engagé un débat correct sur la question. Si nous devons discuter du *modus operandi* de notre Comité, des voyages et de l'audition des témoins etc, nous sommes prêts à participer à cette discussion même si elle prend du temps. Mais je crois que, par courtoisie pour nos témoins, nous devrions leur éviter de devoir écouter cette interminable discussion. Ils ont certainement autre chose de plus utile à faire, par exemple essayer de trouver d'autres moyens que la TPS de recueillir de l'argent au Canada.

M. Soetens: Monsieur le président, je tiens à exprimer ma désapprobation au sujet de certaines remarques que j'ai entendues depuis tout à l'heure. Notre Comité a voyagé à l'automne dernier, et il ne s'est pas contenté d'un rapide survol du Canada. Il ne s'est pas déplacé contre son gré et après avoir essayé par tous les moyens d'éviter cela. En ce qui me concerne en tout cas, je n'ai jamais eu la moindre objection à ce voyage.

Les villes où nous sommes rendus ont été choisies par les représentants des trois partis. Les témoins que nous avons entendus avaient aussi été choisis par les représentants des trois partis. Le programme avait été établi par ces mêmes représentants. Nous avons réparti le temps dans chaque ville en fonction des témoins qui avaient demandé à comparaître. Nous avons écouté ces témoins, et nous en avons même ajoutés quand c'était possible.

Je n'admets donc pas qu'on prétende que ce voyage n'a pas permis au public de s'exprimer pleinement sur la question. J'estime au contraire qu'il a répondu aux exigences fixées par les trois partis.

Je ne me souviens pas nous ayons eu de grandes discussions au Comité une fois que le plan de voyage a été élaboré. Les députés d'en face n'ont pas dit que cela ne suffisait pas et qu'il fallait en rajouter. Notre voyage a été établi en fonction d'un plan adopté par les trois partis. J'ai maintenant l'impression—et c'est peut-être une mauvaise interprétation—que certains des intervenants veulent dire qu'ils n'ont pas vraiment pu participer à l'élaboration de ce programme et qu'il ne correspondait pas à ce qu'ils souhaitaient.

Je doit dire qu'à mon avis, nous avons respecté les exigences formulées. Nous avons rencontré toutes sortes de personnes, des témoins. . . En fait, je crois qu'aucun autre comité au cours de cette législature n'a entendu autant de témoins. Nous avons parcouru plus de chemin que n'importe quel comité de cette législature et peut-être même de toute l'histoire du Parlement du Canada.

Je désavoue donc en principe les remarques de certains députés d'en face. Je suis heureux de voir un des

[Texte]

opposite, and that is really it. I am pleased that one of the members of the NDP in fact endorses the excellent pamphlets the government has put out explaining the goods and services tax, and I hope that when he hands them out in his constituency he very publicly endorses them there too.

Mr. Barrett: People want to ask questions about them.

Mr. Soetens: Thank you very much, Mr. Chairman. If you would like to proceed, I would be happy that we do so.

The Chairman: I have to say, speaking from the Chair, that the statements by Mr. Soetens are correct. We saw 277 sets of witnesses. Our staff analysed nearly 2,000 briefs and representations. We made a very major report. Unfortunately, in writing the report the New Democratic Party absented itself from the writing and wrote a minority report. But they were there during most of the consideration.

I now note that we have new members of the New Democratic Party, but you cannot expect the committee all of a sudden to re-educate the New Democratic Party because they decide at this meeting—not at the last meeting, and not at the meeting before, but this meeting and this meeting only—to send a couple of new members. That of course is their privilege, but I do not see any reason why the rest of us should have to put up with questions that make no real sense.

Mr. Rodriguez: On a point of order on the remark—

The Chairman: Well, you can make all the points of order you want.

Mr. Rodriguez: Well, I am going to make the point of order.

The Chairman: Make your point of order then.

Mr. Rodriguez: You cannot cast aspersions on the members here—

The Chairman: I am not casting aspersions; I said the committee—

Mr. Rodriguez: —as to how long they have been on the committee or how short a time they have been on the committee. These are Members of Parliament who are duly appointed to this committee.

The Chairman: Who are now appointed to replace the regular members.

Mr. Rodriguez: And I want to tell you that just because—

Mr. Richardson: Do your homework.

Mr. Rodriguez: I wish you would not start acting like you are some flunky for Michael Wilson.

The Chairman: Well, why do you not read the report?

Mr. Rodriguez: Now I want to debate my motion, okay?

[Traduction]

représentants du NPD approuver les excellentes brochures publiées par le gouvernement pour expliquer la taxe sur les produits et services, et j'espère qu'il les approuvera aussi publiquement quand elles seront distribuées aux gens de sa circonscription.

M. Barrett: Les gens ont des questions à poser là-dessus.

M. Soetens: Merci beaucoup, monsieur le président. Si vous voulez poursuivre, j'en serais très heureux.

Le président: Je dois dire, en tant que président, que les déclarations de M. Soetens sont exactes. Nous avons rencontré 277 groupes de témoins. Notre personnel a analysé près de 2,000 mémoires et exposés. Nous avons rédigé un rapport très important. Malheureusement, le Nouveau parti démocratique s'est dissocié de ce rapport et a rédigé un rapport minoritaire. Malgré tout, ces députés ont été là pour l'essentiel de la discussion.

Je constate maintenant que nous avons de nouveaux membres du Nouveau parti démocratique, mais on ne peut pas demander au Comité de refaire tout d'un coup l'éducation du Nouveau parti démocratique sous prétexte qu'il décide de nous envoyer de nouveaux membres à cette réunion—pas à la dernière ni à celle d'avant, mais à celle-ci et celle-ci uniquement—. C'est évidemment le privilège de ce parti, mais je ne vois pas de raison d'accepter d'entendre un tas de questions qui n'ont aucun sens.

M. Rodriguez: J'invoque le Règlement à propos de cette remarque. . .

Le président: Vous pouvez faire tous les rappels au Règlement que vous voulez.

M. Rodriguez: Alors je fais appel au Règlement.

Le président: Allez-y.

M. Rodriguez: Vous n'avez pas le droit de faire des remarques désobligeantes sur des membres du Comité. . .

Le président: Je ne fais pas de remarques désobligeantes; je disais simplement que le Comité. . .

M. Rodriguez: . . . sous prétexte qu'ils viennent seulement de se joindre au Comité. Il s'agit de députés qui ont été dûment nommés à ce Comité.

Le président: Pour remplacer les membres ordinaires.

M. Rodriguez: Et je tiens à vous dire que. . .

M. Richardson: Faites votre boulot.

M. Rodriguez: Vous ne devriez pas vous comporter comme une simple marionnette de Michael Wilson.

Le président: Pourquoi ne lisez-vous pas le rapport?

M. Rodriguez: J'aimerais bien qu'on discute de ma motion, d'accord?

[Text]

The Chairman: You have already spoken on your motion.

Mr. Rodriguez: Well, I can speak as many times as I want. The rules of the committee permit that. So I ask for the floor to speak on my motion.

I recall very well the first meeting we had on the goods and services tax on the white paper. I recall this very vividly. In fact, I was the one who raised it in this committee, and it was a steering committee. I raised one evening in the Railway Committee Room that the committee ought to travel.

You were not interested in travelling, Mr. Chairman, and that is why I said you were pulled, kicking and screaming, to travel. You in fact said that you were not interested in going across the country listening to the same people, a bunch of nobodies, repeat the same thing over and over. You said that. I recall Mr. Young supporting me in the suggestion that we ought to travel. You would not travel. You did not want to go to Newfoundland. In fact, you wrote a letter to Mr. Cle Newhook in which you said that there was no particular point in throwing away public money by taking the committee to Newfoundland to hear opinions of Newfoundlanders on the government's proposed goods and services tax. You wrote that in the letter to him. You were not interested in going to Newfoundland.

Mr. Skelly (North Island—Powell River): Can you repeat that?

Mr. Rodriguez: In fact, you went to Alberta and said you had never seen such stupidity and the government should hire a whole bunch of grade 5 teachers to teach them about the GST.

You made all sorts of remarks that indicated that, even though you pushed the travel, even while you were travelling you were expressing your frustration with listening to Canadians.

This committee received over 1,000 briefs on the GST, and you heard 277 or 278 of them. Can you believe that? I recall when we were down in Prince Edward Island, right at the last minute people did not even know if they were appearing. There were people who were breeding farm animals—

The Chairman: Can I slow you down for a second? I assume that you are going to carry on with this this afternoon. If that is the case, can I allow our witnesses, who are busy people and are employees of the Government of Canada, so they can go—

Mr. Barrett: It is up to you.

Mr. Rodriguez: Let me say this, Mr. Chairman—

The Chairman: There is no point in your carrying on your harangue with them here. I do not think they gain a lot. I want to know just how long you want to carry on.

[Translation]

Le président: Vous l'avez déjà exposée.

M. Rodriguez: Je peux y revenir autant de fois que je le souhaite. Les règles du Comité m'y autorisent. Je demande donc la parole pour expliquer ma motion.

Je me souviens très bien de la première réunion que nous avons eue à propos du Livre blanc et de la taxe sur les produits et services. Je m'en souviens très clairement. En fait, c'est moi qui ai soulevé la question en comité, et c'était un comité de direction. J'ai soulevé la question un soir dans la salle du comité des chemins de fer, et j'ai dit qu'il fallait que le Comité voyage.

Vous n'aviez aucune envie de voyager, monsieur le président, et c'est pour cela que j'ai dit qu'on avait dû vous trainer malgré toutes vos réticences. En fait, vous avez dit que vous n'aviez aucune envie de parcourir tout le pays pour écouter les mêmes individus insignifiants répéter indéfiniment la même chose. Vous l'avez dit. Je me souviens que M. Young appuyait ma proposition de voyage. Vous ne vouliez pas. Vous ne vouliez pas aller à Terre-Neuve. En fait, vous avez écrit une lettre à M. Cle Newhook pour lui dire qu'il n'y avait aucune raison de gaspiller des deniers publics en organisant un voyage du Comité à Terre-Neuve pour entendre l'opinion des Terre-Neuviens à propos de la taxe sur les produits et services proposée par le gouvernement. C'est ce que vous lui avez écrit. Vous n'aviez pas envie d'aller à Terre-Neuve.

M. Skelly (North Island—Powell River): Vous pourriez répéter cela?

M. Rodriguez: En fait, vous êtes allé en Alberta et vous avez dit que vous n'aviez jamais vu des gens aussi stupides et que le gouvernement aurait dû engager des professeurs de cinquième année pour aller leur expliquer la TPS.

Vous avez fait toutes sortes de remarques montrant que, pendant tout ce voyage, vous en aviez assez d'écouter les Canadiens.

Le Comité a reçu plus de 1,000 mémoires sur la TPS, et vous en avez entendus 277 ou 278. C'est tout de même incroyable. Je me souviens que quand nous sommes allés à l'île-du-Prince-Edouard, les gens ne savaient même pas à la dernière minute s'ils allaient comparaître. C'étaient des gens qui faisaient de l'élevage. . .

Le président: Pourrais-je vous ralentir un instant? Je pense que vous allez continuer tout l'après-midi. Si c'est le cas, pourrais-je autoriser nos témoins, qui sont des gens occupés et les employés du gouvernement du Canada, à se retirer. . .

M. Barrett: À vous de juger.

M. Rodriguez: Je tiens à vous dire, monsieur le président. . .

Le président: Inutile de les obliger à rester pour écouter votre harangue. Je ne pense pas que cela leur apporte grand-chose. Je veux simplement savoir pour combien de temps vous en avez encore.

[Texte]

[Traduction]

• 1600

Mr. Rodriguez: Well, I will tell you. In the first place, I do not appreciate your casting aspersions on the quality of debate.

The Chairman: I do not care whether you appreciate it or not.

Mr. Rodriguez: I do not appreciate it—

The Chairman: And I am not taking it back.

Mr. Rodriguez: —and I am going to tell you once again this is not an American congressional committee and you are not the chief honcho. This is a democratic parliamentary committee and you do what the committee wants. Now, I want to tell you—

The Chairman: Bring it to a vote.

Mr. Rodriguez: I am not going to bring it to a vote with a bunch of Tories on the other side.

Mr. Chairman, I want to tell you this, and you can make the appropriate decision. This committee will not proceed with any witnesses until we have decided on the question of travel, and when we finish that question there is a whole series of other questions that have to be decided before we hear any witnesses. I want to tell you that, **Mr. Chairman.**

Mr. Dorin: Let us put the question then.

Mr. Rodriguez: No, no, we are not. I have to sense that you are coming over to the view that we should travel and you are prepared to vote to travel.

The Chairman: You know what he wants.

Mr. Rodriguez: If I can get in writing in your blood that in fact the committee will indeed travel and we will have open skies so the committee—

Mr. Dorin: [Inaudible—Editor].

Mr. Rodriguez: I suggest to you, **Mr. Chairman,** we will continue in this vein. You can make the decision what you want to do with the boys from the Finance Department's back room. You asked me the question and that is the answer to the question.

The Chairman: You answered the question.

I would think, **Mr. Dodge, Mr. Sabia,** we are not likely to hear from you this afternoon—

Mr. Rodriguez: See you next year, guys.

The Chairman: —unless we finally work this out. We might as well have you here tomorrow morning if possible, and we will get the clerk to schedule other meetings as appropriate. We will keep in touch with you. Thank you very much for coming.

Mr. Rodriguez: **Mr. Chairman,** on a point of order, I am sure we can work it out. We have an agenda for travel.

M. Rodriguez: Je vais vous le dire. Je veux d'abord signaler que je n'apprécie pas le fait que vous contestiez la pertinence du débat.

Le président: Cela m'importe peu.

M. Rodriguez: Je n'ai pas apprécié vos propos. . .

Le président: Je maintiens ce que j'ai dit.

M. Rodriguez: . . . et je vous répète que vous ne présidez pas un comité du Congrès des États-Unis. Ce comité est un comité parlementaire démocratique, et vous devez vous conformer à sa volonté. J'aimerais maintenant vous dire. . .

Le président: Passons au vote.

M. Rodriguez: À quoi sert un vote dans un comité à majorité conservatrice.

Entendez-moi, monsieur le président, et prenez ensuite la décision qui s'impose. Nous n'entendrons aucun témoin tant que nous n'aurons pas d'abord réglé la question des déplacements, et par la suite, quelques autres questions. Voilà ce que j'avais à dire, monsieur le président.

M. Dorin: Dans ce cas, passons au vote.

M. Rodriguez: Non, je m'y oppose. Il faut que je sois convaincu que vous commencez à vous ranger à mon avis, et que vous êtes prêt à voter en faveur de l'idée que le comité se déplace.

Le président: Vous savez ce qu'il veut.

M. Rodriguez: Si je peux vous amener à jurer sur la tête de votre mère que vous acceptez que le comité se déplace, et que la politique des ciels ouverts s'applique dans ce comité. . .

M. Dorin: [Inaudible—Editeur].

M. Rodriguez: Monsieur le président, nous allons poursuivre dans cette veine. C'est à vous de décider ce que vous entendez faire des éminences grises du ministère des Finances. Vous m'avez posé une question, voilà ma réponse.

Le président: Vous avez effectivement répondu à la question.

Je crains, messieurs **Dodge** et **Sabia,** que nous ne serons pas en mesure de recevoir votre témoignage cet après-midi. . .

M. Rodriguez: À l'an prochain, messieurs.

Le président: . . . à moins que nous arrivions à nous entendre. Il vaudrait mieux que vous reveniez demain matin, si cela vous est possible. Je demanderai au greffier de prévoir d'autres réunions au besoin. Il communiquera avec vous à ce sujet. Je vous remercie d'être venus.

M. Rodriguez: J'invoque le Règlement, monsieur le président. Je suis convaincu que nous pouvons régler la

[Text]

We have it all laid out and all you have to do is to agree with it, and it is not impossible.

Mr. Soetens: Put the motion and we will be glad to vote on it.

Mr. Skelly: Let us speak to it first.

Mr. Soetens: You will find that we are really very reasonable. We are very receptive to your ideas, and we will cast a vote at the appropriate time.

Mr. Rodriguez: We want the details of the travel.

Mr. Skelly: Are you willing to jump at this with no information? Jesus, what a bunch of crazy idiots.

Mr. Rodriguez: See you guys. Mr. Sabia, see you soon, as they say in Parliament—soon.

An hon. member: Six months hence.

Mr. Rodriguez: It is a six-month hoist, boys.

An hon. member: Can we get the schedule for travel?

Mr. Rodriguez: I am not finished.

The Chairman: Well keep talking then.

Mr. Rodriguez: They are leaving.

The Chairman: Of course. They have left.

Mr. Rodriguez: No, they have not; they are still there.

Now, Mr. Chairman, let us get down to brass tacks. I think the committee should travel. Honestly, I think they should. Now we have the details. Now people can see specifically how the bill is going to affect them, and since the government has been mailing out to them. . . In my constituency they have actually been mailing out the bill itself to individuals—actually mailing it out! So if people now are seeing the specifics of the bill—this is not principle any more, this is specifics—I think this is the appropriate time to go out there and listen to what Canadians have to say.

In all the polls that have been taken—and I know you can dump on the polls all you want—79% by any pollster's figures, an overwhelming majority of Canadians, are opposed to this tax. Some 79% of Canadians cannot be wrong, and they are saying they do not want this tax. In some parts of the country it is even higher than 79%.

I say this because I know that the committee has a reputation, and that reputation is one of independence and one of being able to look at the issue in much more detail, to look at the issue much more intently and come up with some pretty good recommendations. I remember the recommendation the committee made on its study of the white paper with respect to the whole question of parimutuel betting. I recall that. That was a very thoughtful proposal that the committee made. Michael Wilson ignored it completely. Well, that is understandable.

[Translation]

question. J'ai un itinéraire à vous proposer. Tout ce que vous avez à faire, c'est de l'approuver. Vous voyez donc que le problème sera vite réglé.

M. Soetens: Mettons la motion aux voix. Nous serons heureux de participer au vote.

M. Skelly: Nous voudrions d'abord débattre la motion.

M. Soetens: Vous verrez que nous sommes très raisonnables. Nous sommes prêts à entendre vos idées, et nous voterons sur la motion en temps et lieu.

M. Rodriguez: Nous voulons discuter un peu de notre itinéraire.

M. Skelly: Êtes-vous prêt à l'approuver sur-le-champ? Quelle bande d'idiots.

M. Rodriguez: Monsieur Sabia, messieurs, à très bientôt, comme nous disons au Parlement.

Une voix: C'est-à-dire dans six mois.

M. Rodriguez: Oui, c'est un renvoi à six mois.

Une voix: Pourrait-on voir cet itinéraire?

M. Rodriguez: Je n'ai pas fini.

Le président: Dans ce cas là, poursuivez.

M. Rodriguez: Je vois que les fonctionnaires nous quittent.

Le président: Évidemment, que pouvaient-ils faire d'autre?

M. Rodriguez: Non, ils sont toujours là.

Monsieur le président, trêve de plaisanterie. J'estime honnêtement que le comité devrait se déplacer. Maintenant que le projet de loi a été déposé, les gens savent exactement comment il va les toucher. Le gouvernement a fait parvenir des brochures explicatives par la poste. . . Dans ma circonscription, imaginez-vous que certaines personnes ont même reçu le projet lui-même! Il n'est plus question du principe maintenant, mais des modalités d'application de la taxe, de sorte que je crois qu'il convient que le comité se déplace pour entendre ce que les Canadiens ont à dire.

On peut critiquer tant qu'on veut les sondages, mais ils révèlent tous que la vaste majorité des Canadiens s'opposent à la TPS, 79 p. 100 d'entre eux pour être précis. Tous ces gens ne peuvent pas se tromper, et ils ne veulent pas de cette taxe. Dans certaines régions du pays, l'opposition à la TPS est encore plus féroce.

Je vous fais part de tout cela parce que je sais que le comité a la réputation de faire preuve d'indépendance, d'étudier minutieusement les questions qui lui sont soumises et de présenter d'assez bonnes recommandations. Je me rappelle la recommandation que le comité a présentée au moment de son étude du Livre blanc sur les paris mutuels. C'était une très bonne recommandation. Or, Michael Wilson n'en a nullement tenu compte, ce qui ne m'étonne pas.

[Texte]

[Traduction]

• 1605

The one, for example, on the whole question of these funeral arrangement funds, pre-arranged funerals—that fund. . . I think it is extremely important, Mr. Chairman, for the committee to get responses from out in the field from not only the funeral directors but the seniors, who are well organized in the communities outside Ottawa.

Everything does not begin and end with Ottawa. I know that is the conventional wisdom around here, that somehow or other everything good emanates from Ottawa. Well, that is not the perception of Canadians out there.

In fact, I would have to say it would do a hell of a lot for the perception of MPs by ordinary folk. . . They have this view of cynicism about MPs that somehow or other we get together in the back rooms of Parliament Hill and we cook things up. And in fact, what other conclusion could they come to? Look what they have got out of it. They have got the GST. They have got the pension claw-backs. They are going to get a budget there. There is no consultation on the budget. How can you blame them for being so cynical about Canadian politics? It really is an encouragement of that whole concept of cynicism on the part of Canadians.

So what do we suggest? What are we suggesting that is so radical? What is so radical about travelling and listening to what Canadians have to say?

Mr. Barrett: Nothing.

Mr. Rodriguez: Nothing. There is nothing radical about that. Canadians want to be able to come to have their say at the committee. And I think that is only fair. After all, they are paying the freight. They are paying for this place. They are paying for the printing of all this material and all this stuff that is being shipped out. So why should they not have a say on the GST? Why is it only the well informed?

There we have Mr. Sabia, the guy who gave us the GST. He is coming to give testimony. Then it will be BCNI. Then it will be the Canadian Manufacturers' Association. Then it will be the Canadian Chamber of Commerce, the Bankers' Association. They do not represent ordinary folk. Are we not interested in the opinions of ordinary folk, Mr. Chairman? Surely we are. I am. And I am quite sure there are members around this table who would be interested.

Mr. Pickard (Essex—Kent): Mr. Chairman, I think some of the points that are being made here are reasonably accurate points. As I look at it, we have come across a time now when maybe the dimension of the whole debate has changed slightly. The government has mailed out this bill across the country to various people. They now have more information. It has mailed out a

Prenons le cas des fonds pour les funérailles planifiées à l'avance. J'estime qu'il s'impose, monsieur le président, que le Comité consulte non seulement les entrepreneurs de pompes funèbres, mais aussi les personnes âgées qui se sont regroupées de façon très efficace pour défendre leurs intérêts même si elles ne demeurent pas à Ottawa.

Il n'y a pas qu'Ottawa dans ce pays. Je sais bien qu'à Ottawa même, nombreux sont ceux qui pensent que rien de bon ne peut venir d'ailleurs. Ce n'est pas ce que croient les Canadiens du reste du pays.

J'ajouterai que les députés pourraient redorer leur image auprès des gens ordinaires s'ils étaient prêts à aller les rencontrer chez eux, d'autant plus que les Canadiens sont plutôt cyniques au sujet de la politique. Ils croient que les députés se réunissent dans les coulisses de la Chambre pour comploter contre eux. Et peut-on s'étonner qu'ils pensent ainsi? Qu'est-ce qu'on leur propose: la TPS, la récupération des pensions, et un budget sous peu. Les a-t-on consultés au sujet de ce budget? Comment peut-on leur reprocher leur cynisme quand rien n'est fait pour leur donner une autre image des hommes politiques?

Voyons ce que nous proposons. Est-ce vraiment révolutionnaire? Qu'y a-t-il de révolutionnaire dans le fait de vouloir se déplacer pour entendre ce que les Canadiens ont à dire?

M. Barrett: Rien du tout.

M. Rodriguez: En effet, rien du tout. Il n'y a rien de révolutionnaire là-dedans. Les Canadiens veulent qu'on leur donne l'occasion de s'exprimer devant le Comité. À mon avis, ce n'est que juste. Après tout, ce sont eux qui paient la note. Sans eux, le Parlement n'existerait pas. Ce sont eux qui paient l'impression de tous ces documents et brochures qui leur sont envoyés. Dans ce cas, pourquoi n'auraient-ils pas leur mot à dire au sujet de la TPS? Pourquoi cela serait-il le privilège de quelques personnes bien informées?

Voilà M. Sabia, le père de la TPS. On lui donne, à lui, l'occasion de se faire entendre. On accordera le même privilège au Conseil canadien des chefs d'entreprises, à l'Association des manufacturiers canadiens, à la Chambre de commerce du Canada et à l'Association des banquiers. Ces associations ne représentent pas monsieur tout le monde. Serait-ce que nous ne nous intéressons pas à la vie des simples citoyens, monsieur le président? Au contraire. Moi, en tous cas, je m'y intéresse. Je suis d'ailleurs convaincu que d'autres membres de ce Comité s'y intéressent également.

M. Picard (Essex—Kent): Monsieur le président, je crois que le député fait valoir quelques bons arguments. À mon avis, tout le débat a maintenant pris une dimension quelque peu différente. Le gouvernement a fait parvenir le projet de loi à une foule de gens. Un grand nombre de Canadiens ont reçu des brochures explicatives. Ils ont maintenant en main l'information dont ils ont besoin

[Text]

great deal of support material. I think at this point we should be ready to listen to all Canadians, having more information, having more background. Certainly we know the government has spent upwards of \$14 million on producing booklets, disseminating information. If that is the case, we should be hearing other Canadians, giving them a second opportunity.

One of the main things I have heard all the way down the line is that the average Canadian did not know what they were talking about. If that is the case, the material that has been mailed out certainly should have answered them. But this gives them a second forum, and a forum under different circumstances from those of the time when we first went around the country. So I would think in seriousness we should be listening and we should be giving Canadians another opportunity to voice their concerns.

Mr. Barrett: Mr. Chairman, I would like to propose some further arguments about this discussion of opening it up.

There is a general malaise in Canada towards politicians in general. There is a sense that we do things to people without their participating in what is happening. There was a recent poll that indicated politicians are now held in the lowest regard in the Canadian mind they have been in the last 50 years in this country. One of the reasons for that frankly is the fact that things happen so quickly in people's lives, things affecting every aspect of their lives, and they happen without a reasonable explanation or with a proper sense of participation.

• 1610

You may indeed ask why I keep on referring to my neighbouring province, the province of Alberta. In the province of British Columbia we have a history of a provincial sales tax. Nine of the ten provinces have a sales tax. There is certainly an accustomed feeling—though not an accepting feeling—to that tax. The question in those provinces is how is this going to be collected on top of the provincial tax? That is separate. I want to bring your attention to the province of Alberta. They have never had a sales tax before.

The Chairman: Sure they have.

Mr. Barrett: They are very angry. They are concerned. These are law-abiding citizens, generally quite conservative, except in some urban areas. They are generally cautious, thoughtful, hard-working, decent Canadians. They have elected Tories to this chamber frequently. At no time when they voted to elect those Members of Parliament, to my knowledge, or according to the mail I am getting, were they aware of the fact that this tax was coming in sponsored by the people they voted for.

Now my good friend suggests that the only response to a debate is a \$100-a-seat ticket to an invitation-only affair. Are you telling me that the hard-working people in Medicine Hat, Calgary, or Edmonton are going to get an

[Translation]

pour porter un jugement éclairé. Il serait donc opportun d'entendre ce qu'ils ont à dire. Nous savons que le gouvernement a dépensé plus de 14 milliards de dollars pour produire et diffuser ces brochures. J'estime donc qu'il faudrait donner aux Canadiens une deuxième occasion de présenter leur point de vue.

On nous a continuellement répété que les gens ordinaires ne savaient pas à quoi s'en tenir au sujet de la TPS. Dans ce cas, ils doivent maintenant être renseignés grâce à ces brochures. Les circonstances n'étant plus les mêmes, il faudrait qu'ils aient l'occasion de s'exprimer à nouveau. J'estime donc sincèrement que le Comité doit donner aux Canadiens une deuxième chance de se faire entendre.

M. Barrett: Monsieur le président, j'aimerais vous présenter d'autres arguments en faveur d'une plus grande transparence.

À l'heure actuelle, les Canadiens ne tiennent pas en très haute estime les hommes politiques. Ils ont l'impression qu'ils sont exclus du processus décisionnel. Un sondage récent révélait que l'estime des Canadiens envers les hommes politiques est à son plus bas niveau depuis 50 ans. À mon avis, cela s'explique en partie parce les choses évoluent rapidement actuellement, et que les Canadiens ont l'impression de ne pas participer à cette évolution, et de ne pas vraiment en comprendre le sens.

Vous vous demandez peut-être pourquoi je continue à vous parler de la province voisine de la mienne, celle de l'Alberta. En Colombie-Britannique, il existe une taxe de vente provinciale depuis longtemps. Les gens y sont donc habitués, même s'ils ne l'aiment peut-être pas. La question qui se pose dans les provinces où il existe déjà une taxe de vente—soit neuf sur dix—c'est de savoir comment on percevra cette nouvelle taxe en sus de la taxe provinciale? C'est une question distincte. J'attire cependant votre attention sur le cas de l'Alberta où il n'y a jamais eu de taxe de vente.

Le président: Bien sûr qu'il y en a déjà eu une.

M. Barrett: Les citoyens de l'Alberta sont très fâchés et ils sont inquiets. Il s'agit de citoyens respectueux de la loi, d'ordinaire assez conservateurs, sauf dans certains villes. Il s'agit donc de gens qui sont pour la plupart prudents, réfléchis, travailleurs et honnêtes. Ils ont fréquemment élu des conservateurs pour les représenter au Parlement. À ma connaissance, et d'après le courrier que je reçois, les Albertains ne savaient pas que leurs députés allaient leur proposer cette taxe quand ils les ont élus.

Mon bon ami semble dire qu'il suffit, pour consulter les gens, d'organiser un débat sur invitation seulement où chaque participant doit déboursier \$100. Va-t-on inviter à cet événement les travailleurs de Medicine Hat, de

[Texte]

invitation? Will there be invitations to the local barber shop? Will there be invitations to the smaller chambers of commerce? Will there be invitations to trade unionists, to teachers, to doctors? Not at all.

Mr. Harvey (Edmonton East): Maybe lawyers.

Mr. Barrett: Maybe lawyers, because they will be able to write it off and it is before the GST. But, Mr. Chairman, I plead to this committee, not just because of a partisan approach, which I confess all of us have, but because it is necessary to understand exactly what is going on in people's minds in this country. They do not want this tax. They do not like government. They do not like the concept of government's ramming something down their throat. Now, the last thing we want to do is erode confidence in the process. We can all appeal on the basis of our own approach. But when we destroy the system, we destroy our participation. There is anger, frustration, and resentment in a number of provinces, but especially in Alberta and in some regions of British Columbia.

Within the last two weeks there was a meeting in the town of Kelowna. Fully 1200 people, good citizens, men and women, came to this meeting. On the platform were representatives of the Reform Party, the New Democratic Party, and other groups and citizens in the community. They represented a significant portion of spokesmen for the public. There was nobody there to defend the GST. There was no one there to stand up and tell them not to worry, that what they were hearing from the platform would be counterbalanced by sound arguments from Progressive Conservative Members of Parliament. Instead, the audience heard a continuous attack on the government for spending \$14 million in propaganda, while making no effort to show up physically. That is not good for the system.

I said in the House and I repeat: If you wish to commit suicide, that is your problem, but you have no right to take the system down with you when you try to ram through legislation in this manner. It is not healthy for the body politic of this country to be exposed to selective committee decision-making on legislation that is extremely unpopular, extremely complicated, and extremely unrepresentative of the voices and opinions of the citizens of this country.

• 1615

If the committee and the government is confident that its good servants, through the chairperson, who is a good, loyal surrogate of Mr. Wilson and does Mr. Wilson's bidding here in the committee and everywhere else, if the country is comfortable with that and the Conservative members here feel strongly about this bill, then there is no reason why you should not go to the public. As a matter of fact, it would have a salutary effect not only on

[Traduction]

Calgary ou d'Edmonton? Invitera-t-on le barbier du coin? Invitera-t-on également les membres des petites chambres de commerces? Et qu'en sera-t-il des syndicalistes, des enseignants et des médecins? Aucun d'eux ne sera invité.

M. Harvey (Edmonton-Est): On invitera peut-être des avocats.

M. Barrett: Oui, peut-être qu'on invitera des avocats qui, de toute façon, pourront déduire cette dépense à laquelle ne s'appliquera pas encore la TPS. Monsieur le président, je presse le Comité d'accepter notre proposition, et je le fais sans égard au parti pris qui, je l'admets, nous anime tous à certains moments. Je le fais parce que j'estime qu'il faut essayer de comprendre la position des Canadiens. Ceux-ci s'opposent à cette taxe. Ils n'aiment pas le gouvernement et ils n'acceptent pas qu'on leur impose quoi que ce soit de force. Nous voulons à tout prix éviter de saper encore davantage la confiance des gens dans leurs institutions. Nous pouvons tous défendre nos idées. Mais si ce faisant, nous détruisons le système, nous mettons fin à notre raison d'être. Les gens ressentent de la colère, de la frustration et de l'amertume dans plusieurs provinces, mais particulièrement en Alberta et dans certaines régions de la Colombie-Britannique.

Il y a deux semaines, une réunion a eu lieu à Kelowna à laquelle ont participé au moins 1,200 bons citoyens. Des représentants du Parti réformiste, du Parti néo-démocrate, d'autres groupes et des citoyens de l'endroit ont pris la parole. Les participants à cette réunion étaient assez représentatifs. Il ne s'est trouvé personne parmi eux pour défendre la TPS. Personne n'est venu les rassurer, c'est-à-dire qu'aucun député progressiste-conservateur n'est venu présenter l'envers de la médaille. Au lieu de cela, l'auditoire a entendu orateur après orateur reprocher au gouvernement d'avoir dépensé 14 millions de dollars en propagande alors que ses députés refusent de parler directement aux gens. Le système parlementaire est mal servi de cette façon.

Je répéterai ici ce que j'ai dit à la Chambre: si vous voulez vous suicider, allez-y, mais vous n'aurez pas le droit de détruire du même coup le système lui-même. Or, c'est ce que vous faites en essayant de faire adopter à toute vapeur ce projet de loi. Le système parlementaire est mal servi quand un comité ne regroupant que quelques personnes choisies prend des décisions sur des mesures législatives extrêmement impopulaires, complexes et contraires à la position exprimée par les citoyens du pays.

Si le Comité et le gouvernement sont convaincus qu'il s'agit d'un bon projet de loi, pourquoi refusent-ils de le défendre devant la population? Que craint le président, qui est l'alter ego de M. Wilson, dont il exécute les ordres en tout temps. Si le Comité acceptait se déplacer, non seulement il permettrait au gouvernement de mieux faire comprendre son projet, mais il contribuerait également à relever l'image de notre système politique.

[Text]

your own government's position, but on enhancing the image of the system and the structure we work in.

We should never be afraid of democracy. We should never be afraid of listening to people and their rank-and-file legion numbers in their own communities. What are we afraid of? Why would anybody not want a travelling committee? Why would anybody not want any citizen who is confused...? I will bet you there is not a committee member here who can explain to this committee point by point all the information that is in these twelve pamphlets and the thirteenth, which is the summary, plus this document.

Let us not kid ourselves, you have raised more questions with this propaganda than you have answered. You have raised more apprehensions than you have answered. You have had an opening debate created one-sidedly, and I do not think it is fair. I do not think it is fair to people who voted for the MPs. I do not think it is fair to the communities that depend upon the indigenous economy that largely relies on small businesses. I do not think it is fair to the system to suggest that somehow this committee will sit here in Ottawa and not hear any more from Canadians. I do not want to defend that position. I do not want to have to explain that position. I am not the only one who is getting letters. I know that every single Member of Parliament is getting letters from people who are angry, disappointed and upset over this legislation.

Mr. Rodriguez: Right on.

Mr. Barrett: Now, this is legislation that demands that the people themselves have a right to come in front of the committee and be shown that committee members are not fearful of facing the public, that they have the courage to stand up and say: this is a particular piece of legislation that the government I support sponsored, and I am not afraid to defend it; I am not afraid to explain it. Because it is a dramatic, fundamental shift in the taxation structure of this country, I am taking the time to go to every community and stand up and say I am prepared to be elected or defeated on this bill, but I believe in it, this is why I believe in it and I want you to have a say before we go any further with it.

What is wrong with that, Mr. Chairman? Nothing is wrong with that. But if we leave the impression that the government majority on this committee was afraid to go out after this phase was reached with the bill, people will become even more cynical. I dare say, Mr. Chairman, I confess with absolutely no inhibition that should this motion not receive approval of the committee I will broadcast that fact. I will go around this country and say to people that they had the opportunity to open these meetings.

Mr. Soetens: Will you promise? Will you leave right away?

Mr. Sobeski (Cambridge): Get my name right, Dave.

[Translation]

Il ne faut jamais craindre la démocratie. Il ne faudrait jamais avoir peur d'aller sur place entendre ce que les gens ont à dire. Que craignons-nous donc? Pourquoi s'opposer à un comité itinérant? Pourquoi quelqu'un s'opposerait-il à ce que les gens qui ne savent pas à quoi s'en tenir...? Je mets au défi quiconque ici de nous expliquer tous les points qui figurent dans ce document et dans ce jeu de treize brochures, dont l'une résume ce que contient les autres.

Ne nous leurrions pas: par cette propagande, vous avez suscité plus de questions que de réponses. Vous avez attisé l'inquiétude au lieu de l'apaiser. Vous avez lancé un débat sans donner à quiconque le droit de réplique, ce que je trouve injuste. J'estime que c'est injuste envers nos électeurs. C'est injuste également envers les localités dont l'économie repose essentiellement sur la petite entreprise. J'estime que le système sera mal servi si ce Comité décide de ne pas quitter Ottawa pour entendre davantage de Canadiens. Je ne veux pas défendre cette position et je n'aimerais pas qu'on me demande de l'expliquer. Je ne suis pas le seul député à recevoir des lettres dans lesquelles les gens manifestent leur colère, leur déception et leur amertume à l'égard de ce projet de loi.

M. Rodriguez: Vous avez parfaitement raison.

M. Barrett: Compte tenu de l'importance de ce projet de loi, les gens ont le droit de venir exprimer leur position devant le Comité. Ils ont le droit de se rendre compte par eux-mêmes que les députés ministériels de ce comité ne craignent pas de leur dire qu'ils sont fiers du projet de loi que le gouvernement a présenté et qu'ils sont prêts à le défendre. Comme il s'agit d'un changement fondamental au régime fiscal du pays, les députés ministériels devraient saisir l'occasion d'exposer à leurs électeurs les raisons pour lesquelles ils appuient ce projet de loi, de solliciter leur avis à ce sujet et de les inviter à marquer leur appui ou leur opposition à la TPS lors des prochaines élections.

Qu'y a-t-il de mal à cela, monsieur le président? Rien du tout. Par contre, si les députés ministériels de ce Comité donnaient l'impression de se défiler à cette étape-ci de l'étude du projet de loi, ils ne feraient que renforcer le cynisme des gens. Je n'ai aucune hésitation à annoncer, monsieur le président, que si le Comité rejette cette motion, je m'empresserai de le faire savoir. J'irai dire aux gens que le Comité leur a refusé l'occasion de se faire entendre.

M. Soetens: Est-ce une promesse? Allez-vous partir tout de suite?

M. Sobeski (Cambridge): Je vous prie d'apprendre mon nom, Dave.

[Texte]

Mr. Barrett: If you are worried about getting your name right, then you should have the courage to have your picture and your body in front of the people.

Mr. Sobeski: Let me commit suicide, Dave.

Mr. Barrett: Look, I understand what you are doing politically, but do it in front of people, not in a secret little room or down here in Ottawa. What are you afraid of? What, frankly, are you afraid of in going to the city of Vancouver—

The Chairman: I am wondering what you are afraid of voting for.

Mr. Barrett: Mr. Chairman, I thank you for the interruption. I know the Chair cannot speak; it was just a slip of the tongue. But I want to say, Mr. Chairman—

The Chairman: I can speak. I will call a vote right now, if you want.

Mr. Barrett: Mr. Chairman, I am not through yet.

Mr. Rodriguez: We are not through yet.

Mr. Barrett: I have a great deal more to say. There are people in this country who have been good, law-abiding citizens, who have never written their Members of Parliament about anything. They have never been concerned about anything.

Mr. Soetens: I really think you have convinced us. I am not sure, but I think you have convinced us. Let us put it to a vote and let us see. You have been very eloquent.

Mr. Barrett: Mr. Chairman, I have had conversions on the road to Damascus before, and I welcome all sinners.

Mr. Layton: It could happen.

Mr. Barrett: I welcome all sinners and I am offering to heal. But you are not ready yet.

Mr. Soetens: Are you sure?

Mr. Barrett: I am sure.

Mr. Rodriguez: He had commitments before.

Mr. Soetens: Have you ever heard of making sure you get the sale?

Mr. Barrett: If you were ready, you would send me a little note with your name signed below it—

Mr. Rodriguez: In blood.

Mr. Barrett: —saying, Dave, I agree with you; I am going to vote for open committee meetings. When I get those notes, I will shut up. I will be so flabbergasted at the recommitment by the Conservative members of this committee to go back to the people who voted for them, back to the constituencies, back to the communities, and say here is what you voted for, here is what we intend to

[Traduction]

M. Barrett: Si vous tenez tellement à ce qu'on connaisse votre nom, pourquoi n'avez-vous pas le courage d'aller rencontrer personnellement les gens?

M. Sobeski: Laissez-moi me suicider, Dave.

M. Barrett: Je comprends ce que vous faites comme gouvernement, mais faites-le au vu et au su de tous et cessez de vous cacher à Ottawa. De quoi avez-vous peur? Avez-vous peur de vous rendre à Vancouver. . .

Le président: Je me demande pourquoi vous avez peur de mettre la motion aux voix.

M. Barrett: Monsieur le président, je vous remercie de votre interruption. Je sais que le président ne peut pas intervenir et que ces mots vous ont échappé. J'aimerais simplement ajouter. . .

Le président: Rien ne m'empêche de prendre la parole. Si vous le voulez, je vais mettre la motion aux voix tout de suite.

M. Barrett: Monsieur le président, je n'ai pas terminé.

M. Rodriguez: Nous n'aurons pas encore terminé.

M. Barrett: J'ai encore beaucoup de choses à dire. Il y a de bons Canadiens respectueux de la loi qui n'ont jamais jugé bon d'écrire à leur député au sujet de quoi que ce soit faute de griefs.

M. Soetens: J'ai l'impression que vous nous avez convaincu. Évidemment, ce n'est qu'une impression. Mettons la motion aux voix et voyons ce qui va se passer. J'admire votre éloquence.

M. Barrett: Monsieur le président, d'autres se sont déjà convertis sur la route de Damas et tous les pécheurs seront pardonnés.

M. Layton: Qui sait, il y aura peut-être d'autres conversions.

M. Barrett: Tous les pécheurs seront pardonnés. Je vous offre une façon de vous amender, mais vous n'êtes pas prêts à l'accepter.

M. Soetens: Êtes-vous sûr?

M. Barrett: Je suis sûr.

M. Rodriguez: On nous a déjà fait des promesses.

M. Soetens: Ne savez-vous pas qu'un bon vendeur doit prendre les moyens d'obtenir la commande?

M. Barrett: Si vous étiez prêts à vous amender, vous me signeriez une petite note. . .

M. Rodriguez: Avec votre propre sang.

M. Barrett: . . . dans laquelle vous diriez ceci: Dave, je suis d'accord avec vous et je vais voter pour une plus grande transparence. Je me tairai lorsque j'aurai reçu ces notes. D'ailleurs, je resterai sans doute muet d'étonnement lorsque les députés ministériels de ce Comité s'engagent à reprendre le bâton du pèlerin pour à aller expliquer à leurs électeurs ce que le gouvernement

[Text]

do, and this is the way we intend to do it. If you do anything less, then the cynicism that exists in the Canadian public's mind about politics and politicians will be reinforced. What do you have to fear? Angry voters? Surely all of you have faced that once in a while in your careers. What do you have to fear? Questions from your own supporters? That, Mr. Chairman, is a test of one's principles and fortitude—

• 1620

Mr. Rodriguez: And moral fibre.

Mr. Barrett: —and moral fibre to be able to stand up in front of the very people who supported you who disagree with this.

Mr. Soetens: Excuse me, I would like to deliver this to you.

Mr. Barrett: Well, there it is.

Mr. Soetens: Exactly what you asked for. Now, shut up.

Mr. Barrett: I will vote for open committee meetings. There is one, there is one—

Mr. Rodriguez: But you did not say travel.

Mr. Barrett: Open committee meetings and travel. You did not have travel.

Mr. Soetens: You did not ask for that.

Mr. Barrett: Well, let us travel.

Mr. Soetens: Mr. Chairman, on a point of order, the gentleman opposite asked me, and *Hansard* will be clear on it, to send him a note that he would shut up if I agreed to open committee meetings.

Mr. Barrett: That is right.

Mr. Soetens: There he is; he has my note. Now, you deliver on your commitment to shut up.

Mr. Barrett: You are absolutely right. Open meetings in Vancouver, in Calgary—

Mr. Soetens: Oh, a typical NDP ploy. Now come the conditions. Amazing, is it not? And once we agree to what else he is asking for there will be even more conditions. A typical NDP ploy.

Mr. Barrett: Mr. Chairman, are you conducting this committee in order or not?

The Chairman: Sure. The committee is in order.

Mr. Barrett: Thank you very much, Mr. Chairman.

I have half a commitment here to open public meetings across this country.

[Translation]

entend faire et comment il compte s'y prendre. Si vous n'êtes pas prêts à aller jusque-là, vous ne ferez que renforcer le cynisme, des Canadiens au sujet des élus et de la politique elle-même. Qu'avez-vous à craindre? La colère des électeurs? Vous avez sûrement dû tous y faire face à un moment ou l'autre dans vos carrières. Qu'avez-vous donc à craindre? Que vos partisans vous posent des questions? C'est dans l'adversité, monsieur le président, que se révèlent les politiciens qui ont suffisamment de principes, de courage!

M. Rodriguez: Et de force morale.

M. Barrett: ... et de force morale pour défendre devant leurs électeurs une mesure qui leur déplaît.

M. Soetens: Voici ce que vous m'avez demandé.

M. Barrett: Très bien.

M. Soetens: C'est exactement ce que vous vouliez. Maintenant, qu'on ne vous entende plus.

M. Barrett: Je voterai pour une plus grande transparence. Voilà une signature. . .

M. Rodriguez: Vous n'avez pas mentionné les déplacements.

M. Barrett: Une plus grande transparence et des déplacements. Vous n'avez pas mentionné les déplacements.

M. Soetens: Vous ne l'avez pas demandé.

M. Barrett: Il faut que le Comité se déplace.

M. Soetens: J'invoque le Règlement, monsieur le président. M. Barrett s'est engagé, comme le confirmera le compte-rendu, à mettre fin à son discours si j'approuvais par écrit la tenue de réunions publiques.

M. Barrett: C'est juste.

M. Soetens: Je l'ai fait. À vous maintenant de respecter votre promesse.

M. Barrett: Vous avez absolument raison. Je préconise la tenue de réunions publiques à Vancouver, à Calgary. . .

M. Soetens: Un stratagème comme le NPD les aime. Voilà qu'on nous fixe maintenant des conditions. Incroyable, n'est-ce pas? Une fois que nous aurons accepté ces conditions, on nous en présentera d'autres. De la part du NPD, il fallait s'y attendre.

M. Barrett: Monsieur le président, veuillez-vous à faire appliquer le Règlement?

Le président: Bien sûr. Cette séance se déroule tout à fait selon les règles.

M. Barrett: Je vous remercie, monsieur le président.

Quelqu'un s'est donc engagé à ce que des réunions publiques soient tenues dans tout le pays.

[Texte]

Mr. Soetens: You have exactly what you asked for.

Mr. Barrett: No, no, no.

Mr. Soetens: It is exactly what you asked for.

Mr. Rodriguez: You did not read the fine print.

Mr. Barrett: Mr. Chairman, there is one committee member who is half-way there.

Now, you put down Edmonton, Calgary, and the rest of the other cities. Put them down there. Just put a p.s. and initial the p.s. That is all it takes—just p.s.

Mr. Soetens: I did not think you would shut up if you got what you asked for.

Mr. Barrett: Mr. Chairman, it is not a question of me shutting up.

Mr. Soetens: But that is what you said you would do.

Mr. Barrett: Mr. Chairman, it is a question of me putting the position clearly that the Canadian people have a right to see this committee travel. They have a right to have Members of Parliament come into their communities and sit down in front of them and answer questions they ask. Anything less by this—

Mr. Layton: It is a waste of time.

Mr. Barrett: A waste of time? Do you not understand the fundamental impact of this legislation? Have you not read your own mail, Mr. Chairman? Do you not understand how angry Canadians are over this legislation? If you do not, then you really do not understand what is going on out there.

Mr. Rodriguez: He said listening to Canadians is a waste of time.

Mr. Barrett: Well, I would not ascribe that to any one member. Listening to Canadians is never a waste of time, never a waste of time.

Mr. Layton: [Inaudible—Editor].

Mr. Barrett: I certainly hope not.

Mr. Rodriguez: I heard the aside.

Mr. Barrett: I want to reiterate, Mr. Chairman, that our position is very clear. We want public hearings, open and available in every province and territory in this country, so people can come from their own neighbourhoods and their own communities to appear in front of this committee and present to the committee their points of view on the goods and services tax. Anything less than that is not acceptable. And I am just doing my duty, Mr. Chairman, as I see it.

Perhaps, Mr. Member, you have more to add to that.

Mr. Rodriguez: Yes.

The Chairman: Oh, it is Mr. Rodriguez now.

[Traduction]

M. Soetens: C'est exactement ce que vous aviez demandé.

M. Barrett: Pas du tout.

M. Soetens: C'est exactement ce que vous aviez demandé.

M. Rodriguez: Vous n'avez pas lu le contrat jusqu'au bout.

M. Barrett: Monsieur le président, il y a un membre du Comité qui a fait la moitié du chemin.

Il vous suffit d'ajouter Edmonton, Calgary et les autres villes. Un petit post-scriptum suffira, avec vos initiales.

M. Soetens: Je me doutais bien que vous n'alliez pas vous taire une fois que vous auriez obtenu ce que vous vouliez.

M. Barrett: Monsieur le président, la question n'est pas de savoir si je vais me taire.

M. Soetens: Mais vous vous étiez engagé à le faire.

M. Barrett: Monsieur le président, tout ce que j'essaie de faire, c'est de défendre le droit des Canadiens de se faire entendre par ce Comité. Ils méritent que les députés viennent répondre sur place à leurs questions. C'est leur droit. C'est la moindre des choses que le comité. . .

M. Layton: C'est une perte de temps.

M. Barrett: Une perte de temps? Ne comprenez-vous pas les conséquences de ce projet de loi? N'avez-vous pas lu votre propre courrier, monsieur le président? Savez-vous à quel point les Canadiens sont furieux? Si vous ne le savez pas, vous ne comprenez pas vraiment ce qui se passe.

M. Rodriguez: Il a dit qu'écouter les Canadiens, c'est une perte de temps.

M. Barrett: Je ne voudrais pas imputer ces propos à qui que ce soit. On ne perd jamais son temps lorsqu'on écoute les Canadiens.

M. Layton: [Inaudible—Éditeur].

M. Barrett: Du moins je l'espère.

M. Rodriguez: J'ai entendu cet aparté.

M. Barrett: Je le répète, monsieur le président, notre position est très claire. Nous réclamons des audiences publiques auxquelles pourront participer les habitants de toutes les provinces et des territoires. Les gens seront ainsi en mesure de venir exprimer devant le Comité leur position concernant la taxe sur les produits et les services. Rien de moins ne sera acceptable. Je ne fais que remplir mon devoir, monsieur le président.

Quelqu'un d'autre a peut-être quelque chose à ajouter.

M. Rodriguez: Oui.

Le président: Voilà M. Rodriguez qui reprend de plus belle.

[Text]

Mr. Rodriguez: Yes.

The Chairman: Okay. Second wind, Mr. Rodriguez.

Mr. Rodriguez: Mr. Chairman, why is it that I have this impression that you, the leader of this committee, and the Tory members on the committee are not interested in travelling? Why do I have that suspicion? And why have I brought this motion forward?

I recall that first meeting. Do you remember that, Mr. Young?

Mr. Soetens: I know why you brought the motion—

Mr. Rodriguez: You remember it well—we do not have the money to travel. I recall very distinctly saying that we had the money to take the Finance Committee down under but we did not have the money to take the committee down east, down west, up north—

Mr. Barrett: New Zealand?

Mr. Rodriguez: Oh yes, they went to New Zealand, down under, thousands and thousands and thousands of dollars. They took the whole committee. Yet he did not have the money set in the budget to do any travelling in Canada to hear Canadians on the GST. What a travesty, Mr. Chairman. And I took you to task that night. I recall it.

Why is it that Canadians become cynical? I want to tell you that there is a feeling that this GST now is cast in stone and that Michael Wilson will not have one phrase, one letter changed, not one “i” not dotted, not one “t” not crossed.

Mr. Harvey: A point of order, Mr. Chairman.

The Chairman: You are not a member of the committee, and I am listening to members of the committee at this point. But I will be delighted to let you speak after we get over the existing members.

• 1625

Mr. Rodriguez: So there is that perception that this thing is carved in stone and nothing is going to be changed—nothing at all.

The Chairman: Nothing will be changed until we get down to considering it clause by clause.

Mr. Rodriguez: There is that perception that nothing—

Mr. Barrett: Let the people have a say.

Mr. Rodriguez: —that really affects people positively will be changed. This is what Michael Wilson has told you, Mr. Chairman. In fact, I have a suspicion the Finance Minister has told the chairman of the Finance Committee he wants this thing done in three weeks flat—three weeks flat. I think I have—

[Translation]

M. Rodriguez: Oui.

Le président: Allez-y, monsieur Rodriguez, puisque vous avez repris votre souffle.

M. Rodriguez: Monsieur le président, pourquoi ai-je l'impression que les conservateurs du Comité et son président ne veulent pas voyager? Pourquoi cette impression? Et pourquoi ai-je présenté cette motion?

Je me souviens de notre première réunion. Vous en souvenez-vous, monsieur Young?

M. Soetens: Je sais pourquoi vous avez présenté cette motion. . .

M. Rodriguez: Vous vous en souvenez bien. On nous dit que le Comité n'avait pas d'argent à consacrer aux déplacements. Je me souviens très bien que le comité des Finances a trouvé l'argent nécessaire pour se rendre en Nouvelle-Zélande, mais il n'avait pas l'argent voulu pour se rendre dans l'Est, dans l'Ouest ou dans le Nord. . .

M. Barrett: Vous avez dit la Nouvelle-Zélande?

M. Rodriguez: Oui, et ce voyage a coûté des milliers de dollars. Tout le Comité s'est rendu en Nouvelle-Zélande. Or, pas un sou n'avait été prévu pour que le Comité se déplace au Canada pour entendre les vues des Canadiens sur la TPS. Quelle parodie de la démocratie, monsieur le président. Je me souviens très bien vous avoir fait des reproches ce soir-là.

Qu'est-ce qui explique le cynisme des Canadiens? Ils ont l'impression qu'il faudrait un miracle pour qu'on change quoi que ce soit à cette TPS, et que Michael Wilson s'opposera à ce qu'on retranche le moindre mot du projet de loi.

M. Harvey: J'invoque le Règlement, monsieur le président.

Le président: Vous n'êtes pas membre du Comité, et la parole est maintenant aux membres. Quand ils auront fini, je vous donnerai la parole volontiers.

M. Rodriguez: Les gens ont donc l'impression que tout est gravé dans la pierre et qu'absolument rien ne sera changé.

Le président: Rien ne pourra l'être avant que nous ne commençons l'étude article par article du projet de loi.

M. Rodriguez: Les gens ont donc l'impression que rien. . .

M. Barrett: Laissez les gens s'exprimer.

M. Rodriguez: . . . ne sera fait pour améliorer leur situation. Voilà ce que vous a dit Michael Wilson, monsieur le président. En fait, je soupçonne le ministre des Finances d'avoir dit au président du comité des Finances qu'il voulait que le Comité ne consacre pas plus de trois semaines à l'étude du projet de loi. Je pense. . .

[Texte]

Mr. Harvey: Mr. Chairman, you cannot let that pass. He is accusing the Finance Minister of contempt of committee.

Mr. Rodriguez: No, I am not. I am just stating that this is what the Finance Minister would like.

The Chairman: Well, you can say what you want, but there are a number of changes we will have to make to this bill in the committee when we get down to it. But you cannot get at those until you get at the hearings with the minister's people and go over the issues with them; and then you could raise the questions of what witnesses we should hear. But there is really no point in hearing witnesses we have already heard; and we have heard 277 sets of them.

Mr. Rodriguez: Mr. Chairman, I agree with you. I would be the last one to want to hear the same witnesses you heard before. I would be the last one to want to hear Tom D'Aquino come here and give evidence again. I would be the last one to want to hear the president of the Canadian Chamber of Commerce come here and whine. I would be the last one to want to hear the chairman of the Canadian Manufacturers' Association come and tell us what a wonderful thing this is. I would hate to have those ones. Why do we not go out and hear a lot of the people who did not get selected by this magic process of selection where a couple of Tories got together and decided to pick out those who would present nice—

Mr. Sobeski: When did Lorne become a Tory?

An hon. member: I guess that is why Lorne is not in the meeting now.

Mr. Rodriguez: Well, some of you guys got together and decided who the bulk of the witnesses would be, because you have a majority on the committee. So what we heard was a parade of all these establishment. . .

And I have a suggestion for the travel. I have a broad outline where we can get to places—

The Chairman: You imply criticism of Mr. Nystrom, your finance critic, because he agreed to every witness who was brought before the committee. You are making that criticism. I think you ought to put it on record that you are criticizing Mr. Nystrom for agreeing to the witnesses who came. He agreed to every one of them.

Mr. Rodriguez: No, I am criticizing you, Mr. Chairman.

The Chairman: Well, why criticize me? Your own party agreed to every witness we heard.

Mr. Rodriguez: I am criticizing you and your colleagues, who in fact put this GST on a fast track. There was this whip through the Atlantic. We did not even have time to talk to people, to listen to people and engage in good, long questioning. I do not think those witnesses in Charlottetown got more than about five minutes each.

[Traduction]

M. Harvey: Monsieur le président, vous devez relever ces propos. Il accuse le ministre des Finances d'outrage au Comité.

M. Rodriguez: Pas du tout. Je dis simplement que c'est ce qu'aimerait le ministre des Finances.

Le président: Vous pouvez dire ce que vous voulez, mais le Comité devra proposer certains changements à ce projet de loi si jamais il s'attelle à la tâche. Il faut d'abord obtenir certains éclaircissements des fonctionnaires. On décidera ensuite des témoins que nous voulons entendre. Il ne sert cependant à rien d'entendre les mêmes témoins et nous en avons entendus 277.

M. Rodriguez: Je conviens avec vous, monsieur le président, qu'il ne sert à rien d'entendre les mêmes témoins. Ce n'est certainement pas moi qui demanderai à entendre de nouveau Tom d'Aquino. Je ne veux surtout pas entendre de nouveau les doléances du président de la Chambre de commerce du Canada. Je verrais très mal que l'Association des manufactures canadiens vienne nous réitérer les avantages de cette taxe. Je détesterais entendre de nouveaux ces témoins. Pourquoi n'allons-nous pas entendre ceux qui n'ont pas été choisis quand une poignée de conservateurs de ce Comité se sont entendus pour inviter des témoins qui auraient quelque chose de bon à dire au sujet de la TPS.

M. Sobeski: Quand Lorne est-il devenu un conservateur?

Une voix: Voilà ce qui explique sans doute l'absence de Lorne.

M. Rodriguez: Comme vous êtes majoritaires au comité, quelques-uns d'entre vous ont établi la liste des témoins. On a donc assisté à un défilé des grandes associations. . .

J'ai un itinéraire à vous proposer.

Le président: Je vous fais remarquer que vous critiquez M. Nystrom, votre porte-parole en matière de finances, parce qu'il a approuvé la liste des témoins. Je crois que le compte-rendu doit mentionner le fait que vous trouvez maintenant à redire à la liste des témoins qui a été approuvée par M. Nystrom. Il a donné son aval à la comparution de chacun de nos témoins.

M. Rodriguez: Non, c'est vous que je critique, monsieur le président.

Le président: Pourquoi moi? Votre propre parti a approuvé la comparution de chaque témoin.

M. Rodriguez: Je vous critique, vous et vos collègues, qui essayez de faire adopter à toute vapeur cette TPS. Le Comité est passé en coup de vent dans les provinces atlantiques. On n'a même pas eu le temps de parler vraiment aux gens et de leur poser des questions. Je me demande si les témoins de Charlottetown ont pu parler pendant plus de cinq minutes chacun.

[Text]

Mr. Sobeski: You did, John.

Mr. Rodriguez: Well, I was doing my job in Charlottetown. What was I trying to do in Charlottetown?

The Chairman: God only knows.

Mr. Rodriguez: Once this committee finally got up, what was I trying to do? That is a good point. You raise a good point.

The Chairman: I know you were trying to do something.

Mr. Rodriguez: I was trying to get ordinary Prince Edward Islanders to be heard. There I was in the lobby, trying to buttonhole the committee so ordinary people—I am not talking about the high mucky-mucks, I am talking about ordinary working-class women and men—could be heard by the committee. And the committee did not have one “flumpse” of time for them—

Mr. Harvey: Sorry, what was that? Can you define that?

Mr. Rodriguez: It is half-way between a “whish” and a “whoosh”. They went right in and out. I am being corrected. It is a “whoosh”.

So there I was, working with ordinary Canadians to be heard on this GST. But they were not heard. So I am suggesting to you a modest schedule for the committee. I think we could start out in Victoria, I think that location should be visited, and certainly Vancouver and—here is where I really touch close to home—the British Columbia interior. I cannot imagine the Finance Committee travelled on the white paper and did not go into northern Ontario, northern British Columbia, any part of the northern prairie provinces—not one of them.

• 1630

We are a resource economy in northern Ontario. I do not have to tell you that. My constituents ask me how the GST will benefit them. If the manufacturers sales tax is gone, how will they benefit from that? We do not have the infrastructure needed for manufacturing.

The Chairman: Read the brief from the Canadian Mining Association.

Mr. Rodriguez: Those guys save buckets of money. Instead of the profit that goes to manufacturers going overseas, they now see the money coming to Ottawa and they ask what benefits are coming back. All they see from this government is cut-back after cut-back.

Now the government is beating the drums for the budget on February 20. The Prime Minister says it will be a tough budget and Michael Wilson says we must be prepared. The chairman of the committee has said this will be a tough budget. Everybody is expecting the axe to fall.

Of course, all the high-ups in the corporate world know that the axe is not going to fall on their necks. Their three-martini lunch provisions are protected. They

[Translation]

M. Sobeski: Mais vous, John, vous avez parlé plus longtemps.

M. Rodriguez: J'essayais de faire mon travail à Charlottetown. Quoi d'autre?

Le président: Dieu seul le sait.

M. Rodriguez: Qu'est-ce que j'ai essayé de faire après que le Comité se soit finalement décidé à se déplacer? C'est une bonne question.

Le président: Vous deviez bien avoir un but en tête.

M. Rodriguez: J'ai essayé d'obtenir qu'on entende les petites gens de l'île-du-Prince-Edouard. Je me revois dans le lobby de l'hôtel essayant d'empêcher le Comité de partir pour que les petites gens—je ne parle pas des grosses légumes, mais des travailleurs et des travailleuses—puissent se faire entendre. Et le Comité n'a même pas eu une seconde à leur consacrer. . .

M. Harvey: Que dites-vous?

M. Rodriguez: Je dis que le Comité est passé en coup de vent.

Je disais donc que j'ai essayé d'obtenir qu'on entende les gens ordinaires. Mais on ne leur a pas donné cette occasion. Je vous propose donc un itinéraire assez modeste. Je pense qu'il faudrait commencer par Victoria, se rendre ensuite à Vancouver et puis—et surtout, devrais-je dire—, dans l'intérieur de la Colombie-Britannique. Je ne comprends pas que le comité des Finances ne soit pas allé dans le nord de l'Ontario, dans le nord de la Colombie-Britannique pas plus que dans le nord des Prairies lorsqu'il s'est déplacé pour entendre des témoins.

L'économie du nord de l'Ontario repose sur les ressources naturelles. Je ne vous apprends rien. Les gens de ma circonscription me demandent comment la TPS va leur profiter. Quel avantage tireront-ils de la suppression de la taxe sur les ventes des fabricants? Ils n'ont pas les installations nécessaires à la fabrication.

Le président: Lisez le mémoire de la *Canadian Mining Association*.

M. Rodriguez: Ces gens-là se remplissent les poches. Mes électeurs, eux, savent seulement que les bénéfices des fabricants qui allaient à l'étranger iront dorénavant à Ottawa et ils se demandent ce qu'il leur reviendra. Le gouvernement, lui, ne fait que sabrer à tour de bras.

Voilà maintenant qu'il bat le tambour en prévision du budget du 20 février. Le premier ministre dit qu'il fera mal et Michael Wilson, qu'il faut se préparer. Quant au président du Comité, il a déclaré qu'il fallait s'attendre à un budget difficile. Tout le monde s'attend à ce que le couperet tombe.

Évidemment, les grosses légumes du monde des affaires savent bien que ce n'est pas sur eux qu'il va tomber. Ils vont encore pouvoir déduire leurs déjeuners d'affaires

[*Texte*]

received all the perks in round one of tax reform, which did not hit them as hard, in terms of percentage, as it hit the poor, or lower-income and middle-income Canadians, who know what the scam is.

So I am making a modest proposal for the committee's travel. I have included Victoria, Vancouver, and the interior of British Columbia.

Mr. Harvey: How about Campbell River?

Mr. Rodriguez: That might be a side trip.

Mr. Harvey: A subcommittee.

Mr. Rodriguez: In northern Manitoba, how can you not go to Thompson and to Churchill? It is absolutely vital to visit northern Manitoba.

Northern Ontario is a vast area, whose residents are extremely perturbed about the role of government in taking more taxes from them while non-renewable resources are shrinking every day. They were hit by the—

Mr. Harvey: Collapsing economy.

Mr. Rodriguez: That is right. In Toronto people are sleeping on the streets. There is poverty and more food banks per square centimetre in Toronto than in any other part of the country.

You cannot go to northern Ontario without visiting Sudbury. In the spring it is something to behold. When you get stuck in the wet snow you go forward and backward and forward and backward and soon you are out of the mud.

The solution is to travel in the Sudbury basin. We must go to Thunder Bay. Did you know that it is 900 miles from Sudbury to Thunder Bay?

Some hon. members: No.

Mrs. Marleau (Sudbury): John, the roads are paved now.

Mr. Rodriguez: But we have to get the committee out to the outreach places like Warren, Hagar, and so on.

Mr. Sobeski: The regions pave the roads.

Mr. Rodriguez: We must visit Quebec. The committee did not visit Quebec and I heard from members of the government side from Quebec who were very upset that the committee did not make one visit to the province of Quebec. I am surprised that Tory members from the province of Quebec sat tight-lipped and did not raise one word about the committee not going to Quebec.

Mr. Soetens: Neither did the NDP members.

Mr. Rodriguez: Would any member from the province who was sitting on the government committee allow it to make a decision that would insult the province by saying that francophone Quebecers do not have anything to say about GST?

[*Traduction*]

bien arrosés. Tous leurs petits privilèges ont été maintenus par la première phase de la réforme fiscale, qui ne les a d'ailleurs pas touchés aussi dur que les gagne-petits ou les citoyens à revenu moyen, qui ont éventé la mèche.

C'est pourquoi je propose une tournée qui n'a rien d'exceptionnel. J'ai inclus Victoria, Vancouver et l'intérieur de la Colombie-Britannique.

M. Harvey: Et pourquoi pas Campbell River?

M. Rodriguez: On pourrait faire un crochet.

M. Harvey: Un sous-comité.

M. Rodriguez: Dans le nord du Manitoba, une visite à Thompson et à Churchill s'impose. Il est tout à fait indispensable de se rendre dans le nord du Manitoba.

Le nord de l'Ontario est un vaste territoire. Les résidents sont scandalisés de voir le gouvernement leur soutirer plus d'impôt alors que leurs ressources non renouvelables s'épuisent de jour en jour. Ils ont été touchés par. . .

M. Harvey: L'effondrement de l'économie.

M. Rodriguez: Précisément. À Toronto, il y a des gens qui dorment dans la rue. Il y a plus de pauvreté et de banques d'aliments au centimètre carré à Toronto que n'importe où ailleurs au pays.

On ne peut se rendre dans le nord de l'Ontario sans aller à Sudbury. Au printemps, c'est toute une aventure. On s'embourbe dans la neige mouillée, et en alternant marche avant et marche arrière, on finit par s'arracher à la boue.

Ce qu'il faut faire, c'est aller dans le bassin de Sudbury. Il faut aller Thunder Bay. Savez-vous qu'il y a 900 milles entre Sudbury et Thunder Bay?

Des voix: Non.

Mme Marleau (Sudbury): John, les routes sont asphaltées aujourd'hui.

M. Rodriguez: Mais il faut se rendre dans des coins comme Warren, Hagar et ainsi de suite.

M. Sobeski: Leurs routes sont asphaltées.

M. Rodriguez: Il faut se rendre au Québec. Le Comité n'y est pas allé et des députés ministériels du Québec étaient très offusqués que le Comité n'y ait pas mis les pieds. Je m'étonne que les députés conservateurs québécois soient restés muets comme des carpes devant le fait que le Comité ne rende pas au Québec.

M. Soetens: Les néo-démocrates aussi.

M. Rodriguez: Les députés québécois laisseront-ils le gouvernement faire injure à la province en déclarant que les Québécois francophones n'ont rien à dire à propos de la TPS?

[Text]

Mr. Couture (Saint-Jean): We are used to that.

An hon. member: Maybe we could consult a Quebec member of the NDP.

Mr. Rodriguez: A member from Quebec says they are accustomed to such treatment. One would think they would have received the message loud and clear on Monday night, when practically 70% left a message.

Mr. Soetens: Are you on the transition team?

Mr. Rodriguez: Quebec City is a place to visit. And if you visit northern Ontario and northern Manitoba, you must go to northern Quebec.

Mr. Couture: Sainte-Anne-de-Bellechasse.

Mr. Rodriguez: I visited a place called North Rustico on Prince Edward Island on the same day the committee was in Charlottetown.

The men were all lobster fishermen, who also take fish. I went out to visit them, but was told they had not gone out to sea that day because it was too stormy and they were over at the Legion. So I went over and they put all those fishermen in a circle and I addressed them on the vagaries and mysteries of the GST. I explain to them that when they buy the fish bait they have to pay the GST but that they can claim it later on as a rebate; they subtract it from the tax they collect when they sell their catch; they fill the forms.

• 1635

So I went through all of this, and then the guy leaned over to me and he asked a key question. He said *sotto voce*—that means in a quiet voice, for my friends who are not trilingual, and for the benefit of the chairman, who has trouble with the one official language he has... Anyway, he said to me: "Hey, what about us guys? We cannot read or write."

I had never thought about that, about the hardship this is going to create for a lot of self-employed people who have difficulty reading and writing. There is 28%—a national figure—of illiteracy in this country, and in some regions of the country it is as high as 40%.

An hon. member: Right.

Mr. Rodriguez: And here we have a very complex bill. Just read any clause of this bill if you want, and you see how complex it is. My colleague read a little section from what was supposed to enlighten us further about it, and that was even more complex than what is in the original clause, and there are other examples of that.

So he asked the right question. He should not be asking me that question. I thought the committee should be there in North Rustico, so we should be going to Prince Edward Island and visiting extensively.

Then of course we would go to St. John's in Newfoundland. It would be very important to go there, considering the insults the chairman made to Cle Newhook, the Leader of the New Democratic Party in the

[Translation]

M. Couture (Saint-Jean): On en a l'habitude.

Une voix: On pourrait peut-être consulter un député québécois du NPD.

M. Rodriguez: Un député du Québec dit avoir l'habitude de ce genre de traitement. Pourtant, le message aurait dû passer lundi soir, puisque près de 70 p. 100 de la population s'est fait entendre.

M. Soetens: Faites-vous partie de l'équipe de transition?

M. Rodriguez: Il faut visiter Québec. Et si on se rend dans le nord de l'Ontario et du Manitoba, il faut aussi aller dans le nord du Québec.

M. Couture: Sainte-Anne-de-Bellechasse.

M. Rodriguez: J'ai visité un endroit appelé North Rustico, à l'Île-du-Prince-Édouard, le même jour où le Comité est allé à Charlottetown.

Les hommes pêchent le homard et le poisson. Je suis allé leur rendre visite. On m'a dit qu'ils n'avaient pas pris la mer ce jour-là à cause du mauvais temps et qu'ils étaient à la Légion. Alors je suis allé les retrouver. Ils ont fait cercle autour de moi et je leur ai parlé des mystères et des caprices de la TPS. Je leur ai expliqué qu'il fallait acquitter la TPS au moment où ils achètent leur appât, mais qu'ils peuvent demander une ristourne après coup. Ils doivent ensuite la soustraire de la taxe qu'ils perçoivent lorsqu'ils vendent leur prise. Ils doivent remplir les formules nécessaires.

Je leur ai tout expliqué, puis un type s'est penché vers moi et m'a posé une question déterminante. Il m'a dit *sotto voce*—ça signifie à voix basse, pour mes amis qui ne sont pas trilingues et pour le président qui a déjà du mal avec l'unique langue officielle qu'il parle... Enfin, il me dit: «Et nous, qu'est-ce qu'on fait? On ne sait ni lire ni écrire.»

Je n'avais jamais pensé aux problèmes que cela va causer pour quantité de travailleurs indépendants qui ont du mal à lire et à écrire. Le taux d'analphabétisme au pays est de 28 p. 100 et monte jusqu'à 40 p. 100 dans certaines régions.

Une voix: C'est vrai.

M. Rodriguez: Et la loi est très complexe. Il suffit de lire n'importe quel article pour voir combien c'est complexe. Mon collègue a lu un passage d'une brochure qui devait nous éclairer et les explications étaient encore plus obscures que l'article lui-même. Et ce n'est qu'un exemple parmi d'autres.

Il a donc posé la question clé. Ce n'est pas à moi qu'il aurait dû poser cette question. Le Comité aurait dû se rendre à North Rustico. J'estime donc qu'il faut visiter à fond l'Île-du-Prince-Édouard.

Ensuite, évidemment, il faudra aller à St-John, à Terre-Neuve. Il est capital d'y aller étant donné les insultes que le président a adressées à Cle Newhook, le chef du Nouveau parti démocratique à Terre-Neuve. Il a dit: «Je

[Texte]

province of Newfoundland. He said: "I would only come there if you can guarantee me one or two first-rate briefs." Who was going to judge these briefs? The chairman. He is going to judge which are first-rate and which are not. I thought all the opinions of Canadians were equally important, from king to pauper, from prime minister to peasant, from worker to MP. I think those opinions are all very important, and very, very relevant.

Then we should of course do a good job in Halifax and Dartmouth. Then, after we complete Nova Scotia, we should go to Saint John and Fredericton.

Mr. Harvey: And Moncton.

Mr. Rodriguez: And Moncton. Thank you, sir. Absolutely. One of the colleagues told me his father was born in Moncton. Well, we can kill two birds with one stone.

Mr. Harvey: What?

Mr. Rodriguez: Then we can go to the Yukon, and we need to have a good hard look at the way the GST will apply.

Mr. Côté (Richmond—Wolfe): New Zealand.

Mr. Rodriguez: Then of course we will go to Regina in Saskatchewan, Calgary in Alberta. . . I see that one of the independent members from Alberta is here, and I am sure she may want to say something about this whole question of travel. Now do not be shy; with this chairman you have just to bull your way in there and get on the thing, and we will support you if you want to speak on this. Do not be shy. You have friends here. I do not know if outside of here you have the same friends, but you have friends here.

Mr. Young: On this issue.

Mr. Rodriguez: On this issue, yes.

Edmonton—definitely we should go back. We should go to Edmonton and spend a little more time doing a little more intensive listening to the concerns of Edmontonians. Very important.

And of course back to Winnipeg. I always like going to Winnipeg. My colleague here has some trepidation about it, but I think Winnipeg has a lot of potential for what ordinary folks in that part of the country think. Very important.

I have a few more things, another area that I want to open up on the whole question of travel.

Mr. Barrett: I want to add just a few more comments about reasons why we should travel across this country and why we should be present in communities from coast to coast.

We have already seen the opening shots by the trade union movement responding to this legislation by suggesting that they will have to reopen existing contracts or bargain even more toughly when the contracts come up.

[Traduction]

n'irai que si vous pouvez me garantir qu'il y aura un ou deux mémoires de premier ordre.» Qui sera le juge? Le président. C'est lui qui va déterminer ce qui est de premier ordre et ce qui ne l'est pas. Moi, je pensais que les avis de tous se valaient dans notre société, du plus grand au plus petit, de premier ministre au paysan, du salarié au député. Je pense que tous ces avis ont du poids et beaucoup de pertinence.

Ensuite, il faudrait aller à Halifax et Dartmouth. Après avoir fait le tour de la Nouvelle-Ecosse, il faudra se rendre à St-Jean et à Fredericton.

M. Harvey: Et Moncton.

M. Rodriguez: Et à Moncton. Merci, monsieur. Tout à fait. Un de mes collègues m'a dit que son père était né à Moncton. Eh bien, cela nous permettra de faire d'une pierre deux coups.

M. Harvey: Quoi?

M. Rodriguez: Ensuite, on pourrait aller au Yukon et examiner d'un oeil critique la façon dont la TPS s'appliquera.

M. Côté (Richmond—Wolfe): En Nouvelle-Zélande.

M. Rodriguez: Ensuite, bien sûr, nous irons à Regina en Saskatchewan, à Calgary, en Alberta. . . Je vois qu'un des députés indépendants de l'Alberta est ici, et je suis sûr qu'elle voudra dire un mot sur la question des voyages. Allons, ne soyez pas timide. Avec notre président, il faut foncer dans le tas et jouer des coudes. Nous allons vous donner un coup de main si vous voulez intervenir. N'ayez pas peur. Vous avez des alliés. Je ne sais pas si vos alliés sont les mêmes à l'extérieur de cette salle, mais ici vous en avez.

M. Young: Sur cette question-ci.

M. Rodriguez: Sur cette question-ci, oui.

À Edmonton, oui, il faut y retourner. Il faut aller à Edmonton et prendre davantage de temps pour écouter attentivement ce qu'ont à nous dire les habitants de cette ville. C'est très important.

Évidemment, il faudra retourner à Winnipeg. J'aime toujours aller à Winnipeg. Cela inquiète un peu mon collègue, mais je pense qu'on y trouvera des gens très représentatifs des citoyens ordinaires de la région. Très important.

J'ai encore des choses à dire sur un autre volet de la question des déplacements.

M. Barrett: Je voudrais ajouter quelques mots sur les raisons pour lesquelles il est nécessaire de faire une tournée dans le pays et de visiter des localités d'un océan à l'autre.

Les syndicats ont déjà annoncé la couleur en disant qu'ils devront renégocier les conventions actuelles ou négocier encore plus serré lorsqu'elles arriveront à échéance.

[Text]

We are going through a very difficult adjustment time because of the Free Trade Agreement. We are going through a tougher time because of the fluctuation in the Canadian dollar, especially through some unfortunate statements by the Prime Minister. But a large part of our basic resource economy is based on the value of that dollar.

• 1640

If large corporations are forced, because of this ill-conceived tax, to deal with the trade union movement, which will be forced to bargain for more disposable income for their members, we could be in for a very difficult labour-management situation in this country.

I want to alert you very seriously, Mr. Chairman, to the fact that you have 12 pamphlets dealing with essentially consumer services that are bought and paid for by working men and working women in this country, who have, by already heavy taxation increases since 1984, less disposable income to spend.

Consumer spending in this country, Mr. Chairman, is very fragile. A significant part of the North American economy in a general sense is based on consumer spending. In Canada it is a particularly serious problem for the Canadian small entrepreneur.

Let us just witness what is happening in anticipation of this tax—with small businesses on the border communities of this country which have been writing us asking us for our assistance in helping them stop the flow of consumer spending from Canadian communities into the United States.

It is a serious problem. I think it is incumbent upon Parliament, through its committee, to be present in the communities to answer those small businesses.

Let us talk about those people who work for an hourly wage and are thinking of buying an automobile built in Canada. The purchase of the automobile is a very, very serious event—fiscally speaking—for most middle class families.

We are talking about a purchase of a brand-new automobile generally running at around \$24,000. We want people to buy automobiles made in Canada. When you add another 7% onto that automobile purchase, it is the difference between buying or not buying. How many automobile workers will be laid off because car sales are down due to the dramatic increase of the 7% sales tax?

My dear friends, you laugh! You think that the manufacturers are going to pass the savings along? Do you think that car prices are going to be reduced because of this? Do not kid yourself.

The Chairman: I will tell you what. We will call the president of any automobile company you want and we will have him on the stand and you can cross-examine him.

Mr. Barrett: Mr. Chairman, there is nothing in this legislation that requires—

[Translation]

Nous traversons une période de transition très difficile à cause de l'Accord de libre-échange. La situation est encore plus pénible à cause des fluctuations du dollar, surtout attribuables aux déclarations intempestives du premier ministre. Néanmoins, une grande partie de notre économie, fondée sur les ressources naturelles, dépend de la valeur du dollar.

Si, à cause de cette taxe mal pensée, les grandes entreprises sont forcées d'affronter les syndicats, qui devront réclamer un meilleur revenu pour leurs membres, le pays pourrait être aux prises avec de durs affrontements entre le patronat et le salariat.

Je suis très sérieux, monsieur le président, quand je vous signale qu'il existe 12 brochures sur des services à la consommation qui ont pour clients des travailleurs et des travailleuses qui, à cause des lourdes augmentations d'impôt qu'ils ont subies depuis 1984, ont encore moins de revenus disponibles qu'avant.

Les dépenses à la consommation sont très vulnérables. Une partie importante de l'économie nord-américaine repose sur les dépenses des consommateurs. Au Canada, le problème est particulièrement grave pour le propriétaire de petites entreprises.

Que se passe-t-il en prévision de l'adoption de cette taxe? Nous recevons des lettres de propriétaires de petits commerces en bordure de la frontière qui réclament de l'aide pour stopper la vague de consommateurs canadiens qui vont acheter aux États-Unis.

Le problème est grave. Il appartient au Parlement, par l'intermédiaire de son comité, d'aller dans ces localités pour répondre à leurs questions.

Parlons un peu du salarié qui veut s'acheter une voiture fabriquée au Canada. Pareil achat est chose très sérieuse sur le plan financier pour la plupart des familles de la classe moyenne.

En effet, une voiture neuve vaut environ 24,000\$. Nous voulons que les citoyens achètent des voitures fabriquées ici. Un supplément de 7 p. 100, c'est suffisant pour changer d'avis. Combien de travailleurs de l'automobile seront licenciés parce que les ventes de voitures auront baissé par suite de l'augmentation spectaculaire de 7 p. 100?

Mes chers amis, vous riez! Vous pensez que les fabricants vont faire profiter le consommateur des économies réalisées? Vous pensez que le prix des voitures va baisser? Ne vous leurrez pas.

Le président: Ecoutez. Nous allons convoquer le président de la compagnie d'automobiles de votre choix et nous allons vous laisser l'interroger.

M. Barrett: Monsieur le président, rien dans la loi n'oblige. . .

[Texte]

The Chairman: He can give you a car deal.

Mr. Barrett: —the money saved in the manufacturers sales tax will be passed on to consumers. There is nothing in this legislation. The price of automobiles is not going to go down. The price of any of these consumer products is not going to go down.

The Chairman: How much do you want to put up on that?

Mr. Barrett: Oh, Mr. Chairman. Come on, Mr. Chairman.

The Chairman: \$10,000? A \$20,000 bet? Come on, let's go.

Mr. Barrett: If it is reduced to betting between you and I, that would be fair enough. But why should we put Canada's future onto a bet between two members of this committee without hearing Canadians—

The Chairman: Because you will not put up. You will not put up or shut up.

Mr. Barrett: Mr. Chairman, if you want to bet on the future. . . Let us ask the purchasers. If you are a man or woman who is working for \$8 or \$9 an hour, especially if you are a single mother—you have two or three kids to support and you believed that the Tories were going to bring in day care and it did not happen and it still cost you a lot of money to take your two or three kids to a day care, day care you have to pay out of your pocket. The difference between what some working poor earn on the job after they pay all of their taxes and their day care costs is almost the same as what they get on welfare.

I am very serious. Have you considered how many people you may drive onto welfare rolls because this is the last straw and it may be cheaper for them to stay home and not work?

Mr. Richardson: Zero.

The Chairman: Zero.

Mr. Barrett: I can tell you there is a serious impact here. We should hear from. . . Oh, Mr. Chairman, you think it is a big joke. You think it is funny, Mr. Chairman. I do not find it humorous at all. This tax is going to have a major—

The Chairman: We heard the witnesses on this.

Mr. Barrett: —effect on the economy of this country and you are going to close the hearing of witnesses to here in Ottawa.

The Chairman: We have already heard them.

• 1645

Mr. Barrett: No. Mr. Chairman, why should you not go to the provinces and hear the membership of a trade union movement, or a single mom who is trying to survive—

[Traduction]

Le président: Il vous fera un bon prix.

M. Barrett: . . . le fabricant à faire profiter le consommateur de la somme économisée en TVF. Il n'y a rien dans la loi. Le prix des voitures baissera pas. Pas plus que celui des autres produits de consommation.

Le président: Combien voulez-vous parier?

M. Barrett: Oh, monsieur le président, je vous en prie.

Le président: Dix mille dollars? Vingt mille dollars? Allez, allez.

M. Barrett: S'il n'y avait que notre gageure dans la balance, cela passerait encore. Mais pourquoi jouer avec l'avenir du Canada sans entendre ce que les Canadiens. . .

Le président: Parce que vous refusez de mettre l'argent sur la table. Ou vous mettez l'argent sur la table ou vous vous taisez.

M. Barrett: Monsieur le président, si vous voulez gager sur l'avenir. . . Demandons au consommateur. Le salarié qui gagne 8\$ ou 9\$ l'heure, surtout la mère célibataire, qui a deux ou trois enfants à faire vivre et qui a cru aux fausses promesses de garderies des Conservateurs, devra se saigner à blanc pour les faire garder. Le salaire du gagnepetit après impôt, moins les frais de garderie, équivaut à peu près au bien-être social.

Je suis très sérieux. Savez-vous combien de personnes vont aller grossir les rangs des assistés sociaux parce que cette taxe sera la goutte qui fera déborder le vase et qu'il leur en coûtera moins cher de rester à la maison plutôt que de travailler?

M. Richardson: Pas un.

Le président: Pas un.

M. Barrett: Je vous assure que les répercussions seront très graves. Il faudrait entendre le témoignage. . . Oh, monsieur le président, vous trouvez ça drôle. Cela vous fait rire, monsieur le président. Moi, pas du tout. Cette taxe va avoir des conséquences. . .

Le président: Nous avons déjà entendu des témoins à ce sujet.

M. Barrett: . . . considérables sur l'économie du pays et vous êtes sur le point de couper court à l'audition des témoins à Ottawa.

Le président: Nous les avons déjà entendus.

M. Barrett: Non. Monsieur le président, pourquoi refusez-vous d'aller dans les provinces entendre les syndiqués ou une mère de famille célibataire qui essaie de survivre. . .

[Text]

The Chairman: We did, we did.

Mr. Barrett: —on a marginal income, talking about the impact?

Mr. Rodriguez: You did it where?

Mr. Barrett: How many single moms have you heard from since you published this stuff? How many open meetings have you had across this country to hear ordinary citizens express this to you, to have them bring in their budgets and say look, this is the impact on my budget; I am not General Motors, I am not the Canadian Chamber of Commerce, I am just trying to survive and raise my two or three kids as a single mom, and I want to tell you how it impacts on me.

Are you prepared to hear that kind of stuff? It is real life out there. There are people who are on the margin, Mr. Chairman, and that margin is very, very slim. They have a right to be heard. The fishermen in the Atlantic provinces who are in a desperate situation, the people who live on margins in large urban areas have a serious problem with housing, and they have a right to be heard too. This is not just some ordinary tinkering around with the tax system. It affects every single citizen in a dramatic way. What is wrong with them coming to this committee, as we travel across this country, expressing their concerns and the impact on them?

You know, Mr. Chairman, the risk is that there are some people out there, ordinary Canadians, men or women, who may have some good ideas that you have overlooked. They may have some concepts or approaches that may be helpful to you to sell this. Of course I am opposed to this tax, but what is wrong with hearing other people? You may find to your surprise that if you risk going from community to community you will encounter some ordinary citizens who have a sense that this can be improved or changed and it would be acceptable to them. Had you ever thought of that?

What is the rush? There is no reason why we cannot travel to the communities outlined by my colleague. It is only fair. I do not mind making the argument that Canadians be heard in every community of this country. And if it takes a bit longer to convince you, then we will take the time.

I think you yourselves have considered the impact of this when people sit down to bargain in trade union negotiations. Do you think they are going to sit still for a 7% increase on their disposable income, a 7% increase in tax on their disposal income? They want to talk about it. They want to know how to negotiate. They want to know where their replacement income is coming from now that they are being burdened with it. They have a right to be heard.

Mr. Sobeski: Dave, the press has gone home.

Mr. Barrett: Mr. Chairman, if the member wishes to interrupt me he should go through the Chair. Let us be formal about this, Mr. Chairman. The chairman is there and I respect the Chair.

[Translation]

Le président: Vous l'avez fait.

M. Barrett: ... avec un salaire de misère au sujet des répercussions?

M. Rodriguez: Vous l'avez fait où?

M. Barrett: Combien de mères célibataires avez-vous entendues depuis que vous avez publié ces documents? Combien d'assemblées publiques avez-vous tenues dans le pays pour entendre des citoyens vous exposer les conséquences de cette taxe sur leur budget? «Je ne suis ni la General Motors, ni la Chambre de commerce du Canada, j'essaie seulement de survivre et d'élever mes enfants toute seule et je veux vous dire quel effet la TPS a sur ma situation».

Allez-vous accepter d'écouter ces témoignages-là? Le vrai monde. Il y a des gens qui vivent de façon très précaire, monsieur le président. Ils ont le droit d'être entendus. Les pêcheurs des provinces maritimes qui sont au désespoir, les petites gens des grandes villes aux prises avec des problèmes de logement, ils ont tous le droit d'être entendus. Il ne s'agit pas d'un simple ajustement de la fiscalité; tous les citoyens sans exception sont touchés de façon radicale. Pourquoi leur refuser de se faire entendre au fil de nos déplacements dans le pays?

Il se peut bien que les Canadiens ordinaires aient à vous suggérer des choses qui vous ont échappées. Ils ont peut-être des solutions qui vous aideraient à convaincre les gens. Bien sûr, je suis contre cette taxe, mais qu'y a-t-il de mal à entendre d'autres témoins? Vous serez peut-être surpris de rencontrer, d'une ville à l'autre, des citoyens qui ont des idées sur la façon d'améliorer cette taxe et de la faire accepter à la population. Y avez-vous pensé?

Pourquoi se presser? Rien ne nous interdit de nous rendre dans les localités énumérées par mon collègue. C'est la simple justice. Je n'ai aucune hésitation à soutenir que les Canadiens doivent être entendus dans toutes les villes du pays. Si c'est du temps qu'il faut pour vous convaincre, alors nous allons le prendre.

Vous-même pourtant avez songé aux conséquences lorsque se tiendront les négociations avec les syndicats. Pensez-vous qu'ils vont rester sans broncher devant une augmentation de 7 p. 100 de la taxe sur leur revenu disponible? Ils veulent en parler. Ils veulent qu'on leur dise comment négocier. Ils veulent savoir où trouver leur revenu de remplacement. Ils ont le droit d'être entendus.

M. Sobeski: Dave, les journalistes sont partis.

M. Barrett: Monsieur le président, si le député souhaite m'interrompre, il doit s'adresser au président. Respectons les règles, monsieur le président. Nous avons un président et je le respecte.

[Texte]

Mr. Soetens: Mr. Chairman, I would like to interrupt if I might.

Mr. Barrett: Do you have a point of order?

Mr. Soetens: Would you advise the other member that the press has gone home?

Mr. Barrett: Mr. Chairman, I appreciate the facetious comments. I know they will be in the Hansard and I will be forced to report them to people out there.

Mr. Soetens: No problem.

Mr. Barrett: That does not bother me.

I have been in this business a long time, Mr. Chairman, but I have never seen a bull-headed committee like this before. I have never seen a denial—

The Chairman: It is the first time you have been on it, my friend.

Mr. Barrett: Mr. Chairman, I am always willing to learn. I am prepared to see something new. But I do not for the life of me understand why you are not prepared to travel from town to town and village to village to hear the concerns of citizens.

My colleague clearly said that you went to New Zealand. How much did you spend on the trip to New Zealand? The trip to New Zealand would have saved enough money to go from community to community—

The Chairman: Less money than it cost us to go to Yellowknife.

Mr. Barrett: Well, Mr. Chairman, you have a choice: do you run out of the country or do you deal with Canadians?

The Chairman: Less money than it cost us to send three people to Yellowknife.

Mr. Barrett: Oh, Mr. Chairman, it may be a humorous matter to you, but I would rather see the committee deal with—

The Chairman: It is rather humorous.

Mr. Barrett: —Canadians rather than with New Zealanders.

The Chairman: It is not funny, actually.

Mr. Barrett: It is the Canadian public we are dealing with.

Mr. Rodriguez: That is fine.

Mr. Barrett: The opportunity for travelling exists.

Mr. Soetens: I think you have convinced us.

Mr. Barrett: We are going to have a recess in the House of Commons from February 23 to the end of the month. What an appropriate time for this committee to travel! We are all free of our parliamentary duties that are so onerous on most of the members here. We can have committee hearings in part of the country, and then we can carry them on for another two weeks after that and finish the rest of the country.

[Traduction]

M. Soetens: Monsieur le président, je voudrais intervenir, si vous me le permettez.

M. Barrett: Vous voulez invoquer le Règlement?

M. Soetens: Voulez-vous informer le député que les journalistes sont partis?

M. Barrett: Monsieur le président, je goûte l'humour de ces remarques. Elles vont figurer dans le Hansard et je serai obligé d'en faire état.

M. Soetens: Cela m'est égal.

M. Barrett: Moi aussi.

Je fais de la politique depuis longtemps, monsieur le président, et jamais je n'ai vu tant d'obstination dans un comité. Jamais la justice n'a. . .

Le président: C'est la première fois que vous y siégez, cher ami.

M. Barrett: Monsieur le président, moi, je veux toujours m'enrichir, apprendre du neuf. Mais je n'arrive vraiment pas à comprendre pourquoi vous refusez d'aller de ville en ville pour entendre les citoyens.

Mon collègue a rappelé que le Comité est allé en Nouvelle-Zélande. Combien a coûté ce voyage? Le prix de ce voyage en Nouvelle-Zélande aurait permis d'aller de ville en ville. . .

Le président: Moins que cela coûte pour aller à Yellowknife.

M. Barrett: Et bien, monsieur le président, vous avez le choix: préférez-vous fuir à l'étranger ou faire face aux Canadiens?

Le président: Moins que cela coûte d'envoyer trois personnes à Yellowknife.

M. Barrett: Oh, monsieur le président, il y a peut-être là de quoi vous faire rire, mais je préférerais que le Comité s'occupe. . .

Le président: Il y a de quoi rire.

M. Barrett: . . . des Canadiens plutôt que des Néo-Zélandais.

Le président: De fait, ce n'est pas drôle.

M. Barrett: C'est de la population canadienne qu'il s'agit.

M. Rodriguez: Justement.

M. Barrett: Les déplacements sont possibles.

M. Soetens: Vous nous avez convaincus, je crois.

M. Barrett: La Chambre va suspendre ses travaux du 23 février à la fin du mois. C'est le moment tout désigné pour une tournée du Comité! Nous sommes tous libérés des obligations parlementaires qui pèsent si lourd sur la plupart d'entre nous. Nous pouvons obtenir des audiences dans une région du pays, puis les poursuivre pendant deux semaines dans les autres régions.

[Text]

It would not take more than three weeks to travel from coast to coast with a committee. We have excellent staff to assist us and we could even shave a little bit off. We could double up in the rooms, put a Tory and a Liberal in the same room. They have the same philosophy anyway, so it would not be too difficult for them. And beyond that, Mr. Chairman—

Mr. Rodriguez: Be careful, now. Who are you going to put with the New Democrats?

Mr. Barrett: You and me. Mr. Chairman, the point is that we can even be billeted. Would that not be a wonderful thing—

Mr. Rodriguez: Yes, wonderful.

Mr. Barrett: —for members of this committee, Mr. Chairman, to be billeted in homes of ordinary Canadians to see how their families are coping with this kind of situation? As a member of a parliamentary committee travelling across this country I would be happy to be billeted in a home and have the opportunity to break bread with some folks in a small town and find out how they are coping with this legislation. Why not? What are we afraid of? Why should we not hear from ordinary Canadians and spend some time with them? Go down and listen to what they are saying.

• 1650

One of the most ominous things they are saying was expressed in the by-election in Chambly. With an honest candidate, the Conservative Party was down to 9.8%. Think about that. What is that telling us? It is telling us that—

Mr. Sobeski: Honest candidates do not get elected.

The Chairman: You should have had somebody who received cheques under the table.

Mr. Barrett: Far be it for me to set the Tories up to fall in a death trap. If you are saying a dishonest candidate would do better, let that be on your heads. I am just observing that it was an honest candidate who got less than 10%.

Furthermore, as we travel across this country and have these open hearings, it would be an opportunity to have a cup of coffee, go down the main street, talk to people and listen to them. You ran out of it?

Mr. Soetens: Yes, we ran out of coffee so we can have it wherever we are.

Mr. Rodriguez: Well, Juan Valdez is right over there.

Mr. Skelly: What is on his mule, though?

Mr. Barrett: Mr. Chairman, in spite of all the levity and humour, my colleague and I are doing this with a sense of earnestness as well. We feel it is necessary to have these kind of meetings across Canada, and I do not see

[Translation]

Trois semaines devraient suffire à couvrir tout le pays. Nous pouvons compter sur notre personnel pour nous aider et nous pourrions même faire des économies par-ci, par-là. On pourrait être à deux par chambre: un conservateur et un libéral. Ils ont la même allégeance de toute façon; ça ne devrait donc pas faire de problèmes. Et puis, monsieur le président. . .

M. Rodriguez: Attention. Qui allez-vous mettre avec les Néo-démocrates?

M. Barrett: Vous et moi. Monsieur le président, en fait, nous pourrions même être hébergés chez l'habitant. Est-ce que ça ne serait pas merveilleux. . .

M. Rodriguez: Oui, merveilleux.

M. Barrett: . . . que les membres du Comité, monsieur le président, soient hébergés par des Canadiens ordinaires et voient comment les familles font face à la situation? À titre de membre d'un comité parlementaire en tournée au pays, je serais heureux d'être reçu dans un ménage, de partager la table des habitants d'une petite ville et d'apprendre comment ils réagiront à cette loi. Pourquoi pas? De quoi avons-nous peur? Pourquoi ne pas écouter ce que les simples citoyens ont à nous dire? Allons les écouter.

L'un des messages les plus menaçants qu'ils ont à nous transmettre a été exprimé à l'occasion de l'élection complémentaire de Chambly. Avec un candidat honnête, le Parti conservateur n'a obtenu que 9,8 p. 100. Pensez-y. Que faut-il en conclure? Que. . .

M. Sobeski: Que les candidats honnêtes ne sont pas élus.

Le président: Vous auriez dû avoir quelqu'un pour recevoir les dessous de table.

M. Barrett: Loin de moi l'idée de tendre aux conservateurs un piège mortel. Si vous affirmez qu'un candidat malhonnête a de meilleures chances, je vous laisse assumer l'odieux de vos propos. Je signale seulement que c'était un candidat honnête qui n'a obtenu que 10 p. 100.

De plus, nos voyages et nos assemblées publiques nous permettraient d'aller rencontrer les gens au coin des rues, de prendre une tasse de café et de bavarder un peu avec eux. Il n'en reste plus?

M. Soetens: C'est ça, il ne reste plus de café et nous pourrions aller en prendre dans les villes où nous passerons.

M. Rodriguez: Eh bien, j'aperçois Juan Valdez là-bas au fond.

M. Skelly: Mais qu'est-ce qu'il y a sur sa mule?

M. Barrett: Monsieur le président, en dépit de cette frivolité, mon collègue et moi-même sommes animés du plus grand sérieux. Ces assemblées pancanadiennes sont nécessaires et je ne vois pas pourquoi les députés du

[Texte]

why the committee should open itself to the accusation that the government members were afraid to go to open meetings in Vancouver or Edmonton or the rest of the cities outlined—and my good friend has an itinerary that I think is adequate. If you want to spend some time in Winnipeg, it is a great city. My father was born there, joined the army there, fought in World War I—

Mr. Rodriguez: What would he say?

Mr. Barrett: My dad is no longer with us, but if he were here he would have said “kill the bill”. My dad was a small-businessman, he paid his taxes, and he was an earnest participant in the community. But if he were faced with this, he would be shocked.

Mr. Rodriguez: So would all small-businessmen.

Mr. Barrett: He would be disappointed, especially when he thought one or two members in the House of Commons were independent, tough fighters. Our chairman has established a public image as a guy who does not take orders from the big muck-a-mucks, as a guy who will stand up to being pushed around—

Mr. Rodriguez: That was a long time ago.

Mr. Barrett: What do you mean?

The Chairman: Will you let Mrs. Grey have an opportunity to speak?

Mr. Barrett: I want everybody to speak.

The Chairman: I just wanted to let you know I have a couple of people on the list.

Mr. Barrett: Far be it from me to stop them from speaking, Mr. Chairman. I would be more than happy to hear what other members have to say.

The Chairman: I think the member from Beaver River wants to say a few words.

Mr. Barrett: Wonderful.

Mrs. Grey (Beaver River): Thank you very much, Mr. Chairman.

The Chairman: We are pleased to have you on the committee.

Mrs. Grey: I will say a few words and be brief about it. I think I can make my points without too much difficulty or rhetoric.

I think what we are looking at in Alberta with people who are having difficulty facing the tax and all—we both know that we have hidden tax, the MST, and that every Alberta family is currently paying a little over \$1,800. But it is the very idea of being hit with taxation that concerns them. This GST certainly is going to go into effect, and people are wondering what the problem is, what is happening. They feel it is very difficult for them to get straight answers.

For instance, I get many calls from my constituents and I try to get that information for them. When I phone the Department of Finance, I hear time and time again that

[Traduction]

gouvernement devraient risquer de se faire accuser d'avoir eu peur de tenir des réunions à Vancouver ou à Edmonton, conformément à l'itinéraire de mon collègue. On pourrait aussi passer quelque temps à Winnipeg; c'est une très belle ville. Mon père y est né, c'est là qu'il s'est enrôlé avant d'aller combattre pendant la Première Guerre mondiale. . .

M. Rodriguez: Et qu'est-ce qu'il dirait, lui?

M. Barrett: Mon père n'est plus parmi nous, mais s'il l'était, il dirait «envoyez cette loi au diable». Mon père avait un petit commerce, il payait ses impôts et il était actif dans sa localité. Mais s'il voyait cela, il serait époustoufflé.

M. Rodriguez: Comme n'importe quel autre petit commerçant.

M. Barrett: Il serait déçu, surtout qu'il croyait qu'un ou deux députés de la Chambre étaient des esprits indépendants, opiniâtres. Notre président s'est créé l'image de quelqu'un qui ne reçoit d'ordres de personne, surtout pas des grosses légumes, de quelqu'un qui se tient debout, qui ne se laisse pas marcher sur les pieds. . .

M. Rodriguez: C'était il y a bien longtemps.

M. Barrett: Qu'est-ce que vous voulez dire?

Le président: Allez-vous donner une chance à madame Grey d'intervenir?

M. Barrett: Je veux que tout le monde intervienne.

Le président: Je vous signale que j'ai deux autres noms sur ma liste.

M. Barrett: Je ne voudrais surtout pas les empêcher de parler, monsieur le président. Je serais ravi d'entendre ce que les autres députés ont à dire.

Le président: Je pense que la députée de Beaver River voudrait dire quelques mots.

M. Barrett: Magnifique.

Mme Grey (Beaver River): Merci beaucoup, monsieur le président.

Le président: Nous sommes heureux que vous soyez des nôtres.

Mme Grey: Je ne veux pas m'éterniser. Je pense être capable de dire ce que j'ai à dire simplement, sans faire de discours.

Nous savons avec quelles difficultés est aux prises la population de l'Alberta. Nous savons tous les deux que la TVF, une taxe cachée, coûte un peu plus de 1,800\$ à chaque ménage albertain. Mais c'est l'idée même d'être frappés par une taxe qui préoccupe les Albertains. Il est certain que la TPS va être votée et les gens se demandent à quoi tient le problème. Ils ont beaucoup de mal à obtenir des réponses nettes.

Par exemple, je reçois de multiples coups de téléphone de mes électeurs et j'essaie d'obtenir des renseignements pour eux. Chaque fois que je téléphone au ministère des

[Text]

Mr. Wilson says this is going to be a simplified tax and that tax reform will be simple. I recently phoned with a question about whether treaty Indians would be exempt or not because of their treaty status, and the person on the other end of the line said he did not have a clue but he would get back to me. I think this is so complex, people are having a difficult time putting their finger on exactly what the problem is.

I think it is important for people to go across the country and listen to regular Canadians. As these fellows said, those people are paying their taxes. People are even saying they do not mind paying more taxes if they know it is going toward the deficit. If members of the government feel comfortable about going to Alberta, where we have a Tory majority—if you can defend something, then why not go and defend it? If you feel capable and competent about what you are doing, then you should feel comfortable in defending it.

• 1655

The problem here is that this GST is indefensible. People are asking, why do they not come? I have spoken at several axe-the-tax rallies. People are angry about the GST, and they are asking why, if this thing can be defended, there are no government members around to defend it.

Some hon. members: Hear, hear!

Mrs. Grey: There is only one answer: this tax is simply indefensible. I wonder why my Tory colleagues from Alberta are not speaking out on this. The people in Alberta do not understand it. If these people were even to speak out about it, under the threat of a tongue-lashing within their caucus, at least people would see that their MP tried on their behalf to dispute something that 80% of the Canadian population is dead against.

Of course, you will remember more than anyone, Mr. Chairman, some of the comments you made in Alberta. I am a teacher, and I have to tell you that many people in Alberta were offended by your remarks. You called us stupid, in effect, and said we did not understand the GST. I would of course like to give you the benefit of the doubt, realizing that those comments could have been taken out of context. But let me tell you, my accountant does not understand the GST either. And I think that goes to show just how difficult and complex this whole situation is.

I will close by making a comment about some of these pamphlets that are going out, and the tax credit that has gone out in the new income tax forms. I had a single mom tell me just two weeks ago that she must be paying the GST already. She does not have a high school education; she is having difficulty with this; she does not have opportunity to go to an accountant, as you and I do, to have him look after her tax credits. She is trying to work her way through this, and she is very mixed up. Regular, ordinary Canadians are having a very difficult time with this.

[Translation]

Finances, on me répète qu'il s'agit d'une taxe simplifiée qui s'inscrit dans une réforme fiscale fort simple. Récemment, j'ai demandé si un Indien inscrit allait être exempté et mon interlocutrice m'a dit qu'elle n'en avait pas la moindre idée et qu'elle me rappellerait. C'est tellement complexe que les gens n'arrivent pas à mettre le doigt sur le problème.

Il est important de faire une tournée au pays pour écouter ce que les Canadiens ordinaires ont à dire. Comme on l'a dit tout à l'heure, ces gens-là paient des impôts. Ils sont d'ailleurs prêts à payer davantage d'impôts pourvu que cela serve à réduire le déficit. Si les députés ministériels n'ont rien contre l'idée d'aller en Alberta, où ils ont la majorité, ils sont en mesure de défendre leur cause, pourquoi ne pas y aller? Si vous êtes sûr de votre fait, vous ne devriez pas hésiter à défendre votre point de vue.

La difficulté, c'est que cette TPS est indéfendable. Les gens se demandent pourquoi vous n'allez pas les rencontrer. J'ai pris la parole à l'occasion de plusieurs manifestations contre la TPS. Les gens sont en colère. Si l'idée se défend, disent-ils, pourquoi n'y a-t-il aucun député ministériel qui vienne la défendre.

Des voix: Bravo.

Mme Grey: La réponse est simple, cette taxe est indéfendable. Je me demande pourquoi mes collègues conservateurs de l'Alberta restent muets. Les Albertains ne les comprennent pas. S'ils faisaient un effort, quitte à se faire rabrouer au sein du caucus, au moins les gens verraient que leur député a essayé de contester une mesure qui a contre elle 80 p. 100 de la population canadienne.

Évidemment, mieux que quiconque, monsieur le président, vous vous souvenez des propos que vous avez tenus en Alberta. Je suis une institutrice, et je dois vous dire que beaucoup de mes concitoyens albertains ont été insultés par vos propos. Vous les avez traités de stupides parce que, d'après vous, ils ne comprenaient pas la TPS. Je suis bien prête à vous donner le bénéfice du doute parce que je sais que ces mots ont pu être cités hors contexte. Je vous dirai cependant que mon comptable non plus ne comprend pas la TPS. Cela montre bien combien cette question est complexe et difficile.

Je terminerai sur les brochures qui sont distribuées et le crédit d'impôt dont il est question dans les nouvelles déclarations. Une mère célibataire m'a dit il y a deux semaines que, d'après elle, elle a déjà dû commencer à payer la TPS. Elle n'a pas fini ses études secondaires; cette histoire lui cause des problèmes; elle n'a pas accès à un comptable, comme vous et moi, qui s'occupera de ses crédits d'impôt. Elle essaie de s'y retrouver et elle s'y perd. Les citoyens ordinaires ont beaucoup de mal à s'y retrouver.

[Texte]

On behalf of Albertans, I want to register some sort of protest, because it seems as though there is not much protest being made from the government ranks in Alberta. I want to be on the record as standing up for the rights of Albertans who are saying that this is a difficult tax, an unfair tax, and a tax that is not visible. People have told me in two back-to-back elections last fall, and then this spring in the by-election, that the GST will be revenue-neutral. We have found out that it is not going to be revenue-neutral. Albertans are quite a bunch, and they are irate about this. I think they deserve some straight answers, some apologies. They are not stupid; they are fine, tax-paying, law-abiding citizens. They deserve help in trying to understand this mass of complexity known as the GST.

Thank you, Mr. Chairman.

Mr. MacWilliam (Okanagan—Shuswap): I would like to go on record as supporting what I think is a very reasonable request for the holding of open meetings right across this country. When the government first brought in the GST, first presented the concept of it back in the fall, I took the time to visit a number of small businesses in my constituency. My constituency is in the southern interior of British Columbia, and it represents a mixture of urban and rural voters. There are a lot of small businesses in those communities, and I visited virtually every one. I talked to about 450 small-businessmen, and left them with petitions against the goods and services tax. Out of those 450, Mr. Chairman, only four of them refused to take the petition. They were not quite sure about the tax, and they did not understand it. They did not want to go on record at that point. That is four out of over 450.

• 1700

I had over 311 petitions sent back to me, Mr. Chairman. Those petitions contain over 15,000 names. That represents about 28% of the registered voters in my riding. They are on record as wanting to speak out very strongly against this goods and services tax. Those numbers are certainly nothing to sneeze at. I think Okanagan—Shuswap is indicative of what is happening right across this land of ours. The equivalent of 28% of the voters in my riding registered those protests. I had, Mr. Chairman, over 1000—

The Chairman: Can you point out something to the member? The House passed this bill in principle on second reading, on a vote. The bill is now before us for consideration of the clauses in that bill.

Mr. MacWilliam: You are quite correct, Mr. Chairman—

The Chairman: The question of the principle of the bill has been decided by the House.

Mr. MacWilliam: I absolutely agree, and I am getting to my point.

[Traduction]

Au nom de la population de l'Alberta, je veux protester parce que je trouve que les ministériels de l'Alberta ne font pas grand bruit. Je veux que l'on sache que je prends le parti des Albertains qui trouvent que cette taxe est injuste, compliquée et cachée. À l'occasion de deux élections successives l'automne dernier, puis lors de l'élection complémentaire du printemps, on nous a dit que la TPS n'aurait aucune incidence sur les recettes fiscales. On a pourtant bien vu que ce ne sera pas le cas. Les Albertains sont sérieux et vous allez voir de quel bois ils se chauffent. Ils méritent des réponses nettes et des excuses. Ils ne sont pas stupides; ce sont de bons citoyens, des gens honnêtes qui paient leurs impôts. Ils sont en droit de recevoir de l'aide pour comprendre ce dédale que l'on appelle la TPS.

Merci, monsieur le président.

M. MacWilliam (Okanagan—Shuswap): Je veux publiquement accorder mon appui à l'idée tout à fait raisonnable de tenir des assemblées publiques partout au pays. Lorsque le gouvernement a annoncé la TPS à l'automne, je suis allé rencontrer un certain nombre de propriétaires de petites entreprises de ma circonscription. Elle se trouve dans la partie sud de l'intérieur de la Colombie-Britannique et regroupe des citadins et des ruraux. Il y a beaucoup de petites entreprises dans les localités de ma circonscription, et je les ai presque toutes visitées. J'ai discuté avec environ 450 hommes d'affaires et je leur ai remis des pétitions contre la taxe sur les produits et les services. Parmi ces 450, monsieur le président, seulement quatre ont refusé la pétition. Ils ne savaient trop que penser de la taxe, qu'ils ne comprenaient pas. Ils n'ont pas voulu prendre position à ce moment là. C'est donc quatre sur plus de 450.

Plus de 311 pétitions m'ont été retournées, monsieur le président. Elles contiennent plus de 15,000 noms. Cela représente environ 28 p. 100 des électeurs inscrits dans ma circonscription. Ces gens-là ont fait savoir officiellement qu'ils s'opposent fermement à cette taxe sur les produits et services. Un tel nombre n'est certes pas méprisable. À mon avis, Okanagan—Shuswap est un cas typique de ce qui se passe dans tout le pays. En sommes, 28 p. 100 des électeurs de ma circonscription ont protesté officiellement. Monsieur le président, plus de 1000. . .

Le président: J'aimerais signaler quelque chose au député. La Chambre a adopté le principe de ce projet de loi en deuxième lecture par un vote. Notre rôle est maintenant d'en étudier les divers articles.

M. MacWilliam: Vous avez tout à fait raison, monsieur le président. . .

Le président: La question du principe du projet de loi a été décidée par la Chambre.

M. MacWilliam: Je suis tout à fait d'accord et j'en arrive à ce que je voulais dire.

[Text]

The Chairman: You may be opposed to the bill—and I know you are—but the fact is, the House passed the bill. We are now dealing with the bill itself.

Mr. MacWilliam: I absolutely agree, Mr. Chairman. The point I am trying to make is to demonstrate the very broad consensus of concern regarding this bill.

The Chairman: Sure, but that is not our—

Mr. MacWilliam: The fact is, in passing this bill the government has taken the bill into committee stage by invoking closure. It invoked closure within a matter of hours after the debate began. Closure as a legislative tool was initiated back in 1913. It was initiated, Mr. Chairman—

The Chairman: I do not mind discussing travelling, but the question of closure was debated in the House. This bill is now before us. Nobody has approved closure here yet.

Mr. MacWilliam: Mr. Chairman, the point I am trying to make is that because the committee has not—

Mr. Sobeski: We need a road map to figure out where he is going.

Mr. MacWilliam: —offered the opportunity for a broad public input, the citizens of my constituency, and certainly every other constituency across this land, are having to rely on their Members of Parliament to act as advocates for them. That opportunity, Mr. Chairman, was denied the people of Canada by the invocation of closure in the second-stage reading of this bill.

I think because the people themselves have not had an opportunity to partake in open forums, and because they have been denied their representation through their Members of Parliament as advocates at the second reading stage, you have essentially usurped and short-circuited the democratic process.

The argument I am making is that because this is an affront to the whole concept of participatory democracy, this committee should seriously consider reopening public meetings right across this country, and seek full public involvement. In that regard, Mr. Chairman, this is the recommendation I would like to make. I have made it by way of written submission to you. I will read it into the record. It is a letter to you, to the honourable Don Blenkarn, chairman, Finance Committee, regarding appearance as a witness. If I could first read it to you, Mr. Chairman, it will be in your hands shortly:

As Member of Parliament for Okanagan—Shuswap, I have received a number of formal written submissions from organizations in my riding concerning the proposed Goods and Services Tax. As their representative, I have made a commitment to present their views on their behalf. During the second-stage reading of the debate on GST, the government imposed closure within hours after debate began. As a result, the

[Translation]

Le président: Vous vous opposez peut-être au projet de loi—je sais que vous vous y opposez effectivement—mais il demeure que la Chambre a adopté le projet de loi. Nous nous occupons maintenant de la teneur du projet de loi.

M. MacWilliam: Je suis tout à fait d'accord, monsieur le président. Ce que je veux mettre en lumière, c'est à quel point on juge ce projet de loi inquiétant.

Le président: Bien sûr, mais ce n'est notre. . .

M. MacWilliam: Il demeure que, pour faire adopter ce projet de loi, le gouvernement l'a confié au comité en imposant la clôture. Il a imposé la clôture quelques heures après le commencement du débat. La clôture en tant qu'instrument législatif a été créée en 1913. Elle a été créée, monsieur le président. . .

Le président: Je ne m'oppose pas à ce que nous discussions des voyages, mais la question de la clôture a été débattue au Parlement. Nous étudions actuellement le projet de loi. Personne, ici, n'a encore imposé la clôture.

M. MacWilliam: Monsieur le président, ce que j'essaie de dire c'est que, puisque le comité n'a pas. . .

M. Sobeski: Nous aurions besoin d'une carte routière pour savoir où il va.

M. MacWilliam: . . . offre l'occasion d'une vaste participation publique, les citoyens de ma circonscription et, bien sûr, ceux de toutes les autres circonscriptions, doivent compter sur leurs députés pour que ceux-ci parlent en leur nom. Cette possibilité, monsieur le président, a été refusée aux Canadiens par l'imposition de la clôture à la deuxième lecture de ce projet de loi.

À mon avis, puisque les citoyens eux-mêmes n'ont pas eu l'occasion de participer à des tribunes ouvertes et qu'ils ont été privés d'être représentés par leurs députés, qui auraient pu les défendre à l'étape de la deuxième lecture, vous avez, en somme, violé le processus démocratique, que vous avez court-circuité.

Ma thèse est la suivante: puisqu'on a bafoué le principe de la démocratie de participation, votre comité devra envisager sérieusement de reprendre ses séances publiques dans tout le pays et de rechercher l'entière participation des citoyens. À cet égard, monsieur le président, voici la recommandation que j'aimerais formuler. Je l'ai préparée par écrit à votre intention. Je vais la lire pour qu'elle figure au compte rendu. C'est une lettre adressée à l'honorable Don Blenkarn, président, Comité des finances, au sujet de la possibilité de comparaître comme témoin. Je voudrais d'abord la lire, monsieur le président, puis vous la remettre.

À titre de député d'Okanagan—Shuswap, j'ai reçu plusieurs mémoires écrits d'organisations de ma circonscription au sujet de l'éventuelle taxe sur les produits et les services. À titre de représentant de ces personnes, je me suis engagé à faire connaître leur point de vue. Au cours du débat de deuxième lecture sur la TPS, le gouvernement a imposé la clôture quelques heures après le début des discussions. En

[Texte]

vast majority of members were disenfranchised from their duty to represent their constituents.

Mr. Dorin: They did not take up their duty.

Mr. MacWilliam:

The use of closure was adopted in 1913 in order to resolve legislative deadlocks, and was meant to be applied only after exhaustive debate had taken place. Within the last six months, this legislative tool has been used no fewer than 11 times to stifle reasoned debate and short-circuit the democratic process. Through the use of closure, the government has abrogated its responsibility to the Canadian people, and has insulted the very principle of parliamentary representation.

I am therefore earnestly requesting, Mr. Chairman, that this committee allow me, as Member of Parliament for Okanagan—Shuswap, to appear as a witness before this committee at the earliest available opportunity to provide evidence submitted to me regarding the proposed tax measure; and furthermore, that the committee schedule a public meeting in the southern interior of British Columbia in order that I and other members of my constituency and neighbouring constituencies are provided such an opportunity for debate.

Some hon. members: Hear, hear!

• 1705

Mr. MacWilliam: Mr. Chairman, I have submitted that in written format as well as on the record here. I have no vote in this committee. I cannot move a recommendation in the committee. I simply request serious consideration from the members of this committee that I be provided the opportunity to represent the views and the concerns of my constituents.

Mr. Skelly: Mr. Chairman, it is my hope that the committee will support the motion put forward by my colleagues. The suggestion of this having been voted on by the House under the hammer of closure can be fairly considered in this committee as ludicrous. This particular tax is viewed by most Canadians, and certainly the Canadians who live in the area of the country I represent, as one of the worst taxes they have ever been faced with.

The Chairman: The issue before the committee is the terms of the bills—

Mr. Skelly: The issue is travelling, Mr. Chairman.

The Chairman: —not the principle of the bill, on which the House has expressed its view.

Mr. Skelly: Mr. Chairman, we are dealing with the principle of open hearings in various parts of the country right now, and I think it is time the members of the committee, including you, Mr. Chairman, pay a little more attention to that.

[Traduction]

conséquence, les députés, en très grande majorité, n'ont pas pu s'acquitter de leur devoir de représenter leurs commettants.

M. Dorin: Ils ne se sont pas acquittés de leur devoir.

M. MacWilliam:

On a créé la clôture en 1913 pour résoudre les impasses législatives et cette mesure ne devait être appliquée qu'après des débats de longue durée. Au cours des six derniers mois, on a eu recours à cet instrument législatif pas moins de 11 fois pour couper court à des débats réfléchis et court-circuiter le processus démocratique. Par le recours à la clôture, le gouvernement a fait fi de ses responsabilités envers les citoyens canadiens et il a violé le principe même de la représentation parlementaire.

Je demande donc sincèrement, monsieur le président, que votre comité m'autorise, à titre de député d'Okanagan—Shuswap, à comparaître comme témoin à la première occasion qui se présentera afin de faire état des points de vue qui m'ont été communiqués au sujet de la mesure fiscale envisagée. Je demande, en outre, que le comité organise une réunion publique devant se tenir dans la partie sud de l'intérieur de la Colombie-Britannique pour que moi-même et d'autres citoyens de ma circonscription et des circonscriptions voisines puissions participer au débat.

Des voix: Bravo!

M. MacWilliam: Monsieur le président, je vous ai présenté ma requête par écrit et je l'ai lue aux fins du compte rendu. Je n'ai pas le droit de vote au comité. Je ne peux pas y présenter de recommandation. Je demande tout simplement aux membres du comité d'envisager sérieusement de m'offrir l'occasion de représenter les opinions et les préoccupations de mes commettants.

M. Skelly: Monsieur le président, j'espère que le comité appuiera la motion présentée par mes collègues. Le comité, peut à juste titre trouver absurde que ce projet de loi ait été voté à la Chambre par suite de l'imposition de la clôture. La plupart des Canadiens et, en tout cas, ceux qui vivent dans la région que je représente, considèrent cette taxe particulière comme une des pires qu'ils aient jamais connue.

Le président: Ce que le comité doit étudier, c'est le texte du projet de loi. . .

M. Skelly: La question à l'étude est celle des voyages, monsieur le président.

Le président: . . . et non le principe du projet de loi, au sujet duquel la Chambre s'est prononcée.

M. Skelly: Monsieur le président, nous étudions en ce moment l'opportunité de tenir des audiences publiques dans diverses régions du pays, et je pense qu'il est temps que les membres du comité, vous y compris, monsieur le président, s'occupe un peu plus de cela.

[Text]

The interesting thing is that we look at the prospect, because you are not prepared to consider this in an open and fair way with Canadians, that this Conservative Party in this country is at about 23% in the polls and dropping like a rock. The other thing people find so offensive—

Mr. Dorin: You have been at 20% lots of times.

Mr. Skelly: Well, certainly we were not in Chambly the other day, and you might—

Mr. Soetens: Are you on the transition team? I hope so.

Mr. Skelly: —consider the rest of you following in at 9.8%.

But seriously, I am astounded at the pigheaded fashion in which the Conservative Party can face this thing. The Reform Party is approaching members of the Conservative Party in Alberta asking if they will switch parties. In British Columbia they are rapidly collapsing in the face of a growing Reform Party and certainly a much stronger NDP.

The thing that really burns them, Mr. Chairman, is the fact that this government would turn around and take \$14 million of their hard-earned tax money and try to propagandize and stuff this false message down their throats and that it would not even have the common decency to come and sit before them and hear their input on it. It is absolutely shocking that people in Newfoundland can be faced with taxation in the order of 16%.

Mr. Dorin: I wonder if I could ask a question.

Mr. Skelly: By all means.

Mr. Dorin: We are talking about this hard-earned tax money and we talked early about the cost of travelling. I wonder if the NDP would be prepared to pay the cost of any travelling we might do from their research budget?

Mr. Harvey: If you will pay for the cost of advertising from yours.

Mr. Rodriguez: We will get around to that soon enough.

Mr. Skelly: Mr. Chairman, I regret that the hon. member—

Mr. Barrett: You are going to blow \$14 million on this.

Mr. Dorin: That is the government. We are a parliamentary committee. We do not have—

Mr. Barrett: You are on the record here saying. . . \$14 million you are going to blow. Come on!

Mr. Skelly: I regret that the hon. member sees this in such a funny and flippant manner. What you are basically asking senior citizens in the area I represent is to take

[Translation]

Ce qu'il y a d'intéressant, c'est que, parce que vous n'êtes pas disposé à discuter ouvertement et équitablement de cette question avec les Canadiens, le Parti conservateur connaît, dans les sondages, une popularité d'environ 23 p. 100 qui baisse à vue d'oeil. Ce que les gens trouvent aussi de choquant. . .

M. Dorin: Vous avez été vous-même à 20 p. 100, bien souvent.

M. Skelly: Vous n'étiez pas à Chambly l'autre jour, et vous pourriez. . .

M. Soetens: Faites-vous partie de l'équipe de transition? Je l'espère.

M. Skelly: . . . envisager de vous retrouver tous à 9,8 p. 100.

Mais, sérieusement, je m'étonne de l'entêtement du Parti conservateur dans cette affaire. Le Parti réformiste fait campagne auprès des membres du Parti conservateur en Alberta pour leur demander de changer d'allégeance. En Colombie-Britannique, c'est l'effondrement rapide face à un Parti réformiste en pleine expansion et à un NPD beaucoup plus fort.

Ce qui les insulte, monsieur le président, c'est que le gouvernement leur enlève 14 millions de dollars de leur argent durement gagné, qu'il veut leur faire avaler cette propagande mensongère et qu'il n'ait même pas la simple politesse de venir les écouter. Il est absolument révoltant que les gens de Terre-Neuve soient menacés de payer une taxe de quelque 16 p. 100.

M. Dorin: J'aimerais poser une question.

M. Skelly: Allez-y.

M. Dorin: Il vient d'être question d'argent durement gagné et nous avons parlé plus tôt du coût des voyages. Le NPD serait-il disposé à payer le coût de nos voyages éventuels à même son budget de recherche?

M. Harvey: Si vous payez vous-mêmes le coût de la publicité en puisant dans votre propre budget.

M. Rodriguez: Nous y arriverons bien assez tôt.

M. Skelly: Monsieur le président, je regrette que l'hon. député. . .

M. Barrett: Vous allez gaspiller 14 millions de dollars pour cela.

M. Dorin: Il s'agit du gouvernement. Quant à nous, nous sommes un comité parlementaire. Nous n'avons pas. . .

M. Barrett: C'est vous qu'il l'avez dit, c'est inscrit au compte rendu. Quatorze millions de dollars que vous allez dépenser. Allons donc!

M. Skelly: Je regrette que l'hon. député trouve cela si drôle et qu'il se montre si désinvolte. Au fond, ce que vous demandez aux citoyens âgés de ma région, c'est de

[Texte]

13% of their hard-earned pension cheques and throw it in the stove. That is the way they see you guys.

Now, the critical issue, Mr. Chairman, is that this committee must travel. It must get into communities all across this country. It must take input from Canadians as to how they feel about this, how it is going to impact them. Certainly, when we are talking about getting out of this committee, it has to happen. It is interesting that people are now forming the basic guts of what they are calling "kill the bill" committees, where the local chamber of commerce and the local labour council, two unlikely bedfellows, are joining together to defeat this bill and the government. They see every bean of this GST tax not going toward the deficit, not going to pay off the national debt, but they anticipate it is going to Baie Comeau and they see it as one of the largest rip-offs in this country.

• 1710

There is also a feeling out there, Mr. Chairman, that this government will not listen to them. It is pigheaded, it is arrogant, and just absolutely rejects the input from ordinary Canadians.

Mr. Layton: Tell them how we are listening here.

Mr. Skelly: They see the Senate as their only ally in this. They are hoping that MacEachen and the gang in the Senate will actually kill this bill, and it is the only hope that will occur. Across this country you are going to find that people cannot count on their elected representatives to listen to them. They will not travel. They will not face those communities, Mr. Chairman. They have to go to an unelected anachronism as their only hope to dump this nefarious, rotten, oppressive piece of legislation.

I am certain that my colleague here had a few more words to say on this. Some of the remarks that he made bear repeating.

The Chairman: I think one of your colleagues wants to speak. I think we want to let everybody get on the record here. I want you to know that even though you are not a member of the committee you get a fair hearing here. We are patient. We listen closely to what you say.

Mr. Rodriguez: That is a switch.

The Chairman: I always wondered why Mr. Skelly was not at our Vancouver hearings, but he was not.

Mr. Harvey: Your reputation for fairness, compassion, indulgence, fair play, wisdom, honesty, trustworthiness, loyalty, helpfulness, friendliness, courtesy, cheerfulness, and thrift precede you, sir, and I do thank you for this magnanimity you show me at this time. I thank as well my honoured and esteemed colleagues for their indulgence, and indeed the members of the benches

[Traduction]

prendre 13 p. 100 de leur pension bien méritée et de jeter cet argent au feu. C'est ainsi qu'ils voient la chose.

Mais le point essentiel, monsieur le président, c'est que le comité doit voyager. Il doit se rendre dans diverses collectivités un peu partout au pays. Il doit savoir ce que les Canadiens pensent de la TPS et comment cela va les toucher. Quand nous disons qu'il faut sortir du comité, c'est ce que nous voulons dire. Chose intéressante, les gens créent des comités pour torpiller le projet de loi. Et le plus incroyable, c'est que les chambres de commerce et les syndicats unissent leurs forces localement pour contrer ce projet de loi et renverser aussi le gouvernement. Les recettes de cette TPS n'iront pas réduire le déficit, prévoient-ils; elles ne serviront pas non plus à rembourser la dette nationale. Ils voient tout cela se diriger vers Baie Comeau et c'est, d'après eux, une des pires escroqueries que l'on ait jamais vues au pays.

Ils ont aussi l'impression, monsieur le président, que le gouvernement refuse de les écouter. C'est un gouvernement entêté, arrogant, qui refuse catégoriquement d'écouter les Canadiens ordinaires.

M. Layton: Dites-leur bien que nous les écoutons ici.

M. Skelly: C'est au Sénat qu'ils trouvent leurs seuls alliés. Ils espèrent que MacEachen et toute sa bande vont effectivement torpiller le projet de loi; c'est leur seul espoir. Dans tout le pays, vous allez constater que les gens ne s'attendent pas à ce que leurs représentants élus les écoutent. Ceux-ci ne veulent pas voyager. Ils ne veulent pas affronter ces collectivités, monsieur le président. On doit s'adresser à un organisme anachronique dont les membres ne sont pas élus; c'est seulement là qu'on espère pouvoir se défaire de ce texte législatif nuisible, pourri et opprimant.

Je suis sûr que mon collègue que voici avait encore quelques mots à dire à ce sujet. Certaines des observations qu'il a faites méritent d'être répétées.

Le président: Je pense qu'un de vos collègues désire prendre la parole. Je pense que nous voulons laisser tout le monde s'exprimer officiellement ici. Sachez bien que, sans être membre du comité, vous pouvez vous faire entendre ici. Nous sommes patients. Nous vous écoutons attentivement.

M. Rodriguez: C'est nouveau.

Le président: Je me suis toujours demandé pourquoi M. Skelly n'était pas présent à nos séances de Vancouver, mais il était absent.

M. Harvey: Vous êtes précédé, monsieur, par votre réputation d'équité, de compassion, d'indulgence, de fair-play, de sagesse, d'honnêteté, de fidélité, de loyauté, de serviabilité, de bienveillance, de courtoisie, de bonne humeur et d'économie et je vous remercie de la magnanimité dont vous faites preuve envers moi en ce moment. Je remercie aussi mes honorés et estimés

[Text]

opposite for their kind patience in hearing me at this juncture.

Mr. Chairman and members of the committee, I would like to start with and indeed couch the entire of my remarks in the following. It is a quotation from the fifth edition of Beauchesne's *Parliamentary Rules and Forms*. It is citation number 570, to be found on page 190 of the fifth edition. It reads in its entirety: "It is the duty of all committees to give to the matters referred to them due and sufficient consideration".

Mr. Chairman, it seems to me that this is the very foundation of the work this committee has been charged by the House of Commons to do, that indeed the job of this committee is to give "due and sufficient consideration" to this massive Bill C-62.

So what remains, Mr. Chairman, at the outset of this committee's deliberations in this regard at least, is the necessary determination of what will constitute due and sufficient consideration. In order to answer that question, Mr. Chairman and committee members, the scope of the bill under consideration itself must be taken into account, but as well the probable impacts of that bill on Canadian society must be considered as the committee itself, as is its duty, determines what will constitute due and sufficient consideration.

I would submit dispassionately, in a spirit of non-partisan goodwill and compromise, that of central consideration at this point is—

Mr. Skelly: Is there an air sickness bag?

Mr. Harvey: —a very clear, unavoidable fact, that Bill C-62 will bring about changes to the Canadian federal taxation regime of a scope and profundity unequalled since 1917. I would assume there is no member of this committee would dispute that in fact what we have here is a proposal for a radical, fundamental departure in the Canadian federal taxation regime. This is a bill the importance of which in this regard is unequalled since the introduction of the income tax itself. Mr. Chairman, the members opposite are in unanimous agreement—

• 1715

An hon. member: Maybe you finally learned something about it.

Mr. Harvey: I welcome this apparent unanimous agreement. The assessment of the absolutely fundamental nature of this bill is shared apparently by all members of this committee, Mr. Chairman. This must be kept in mind when considering what constitutes due and sufficient consideration of the bill. Mr. Chairman, I do not think it reasonable that so important a bill be considered by this committee solely in the confines of this room.

[Translation]

collègues de leur indulgence et même les députés de l'autre côté pour l'aimable patience qu'ils mettent à m'écouter à cet instant.

Monsieur le président, membres du comité, j'aimerais faire précéder mes observations d'une phrase qui les résume. C'est tiré de la cinquième édition du *Règlement annoté et formulaire de Beauchesne*. Il s'agit du paragraphe 570, qu'on trouve à la page 194 de la cinquième édition, version française. Le voici, intégralement: «Il est du devoir des Comités d'accorder à toutes les questions qui leur sont déferées l'attention la plus sérieuse et la plus complète».

Monsieur le président, je vois là le fondement même de la tâche que la Chambre des communes a confiée au comité. Cette tâche, c'est effectivement d'accorder «l'attention la plus sérieuse et la plus complète» au massif projet de loi C-62.

Ce qu'il reste à faire, monsieur le président, au début des délibérations du comité à cet égard, du moins, c'est donc d'établir ce qui constituera l'attention la plus sérieuse et la plus complète. Pour cela, monsieur le président et membres du comité, il faut tenir compte de la nature même du projet de loi à l'étude, mais aussi de ses effets probables sur la société canadienne.

Sans passion, sans partisanerie, dans la bonne volonté et dans un esprit de compromis, je voudrais dire que, à mon avis, ce qu'il y a de plus important à cet égard c'est. . .

M. Skelly: J'ai mal au coeur.

M. Harvey: . . . le fait certain que le projet de loi C-62 va apporter au régime fiscal fédéral du Canada des changements d'une ampleur et d'une profondeur telles qu'il faut remonter à 1917 pour en trouver l'équivalent. Aucun membre du comité ne constatera, j'en suis sûr, que ce qui nous est proposé ici, c'est une modification radicale et fondamentale du régime fiscal fédéral du Canada. C'est un projet de loi dont l'importance à cet égard est sans précédent depuis la création même de l'impôt sur le revenu. Monsieur le président, nos vis-à-vis sont unanimement d'accord. . .

Une voix: Vous avez peut-être enfin compris quelque chose.

M. Harvey: Je me réjouis de cet accord apparemment unanime. Tous les membres du Comité, semble-t-il, monsieur le président, sont d'accord sur le caractère absolument fondamental de ce projet de loi. Il faut en tenir compte pour déterminer ce qui constitue l'attention la plus sérieuse et la plus complète à accorder à ce projet de loi. Monsieur le président, à mon avis, il ne serait pas raisonnable qu'un projet de loi aussi important soit étudié par ce comité uniquement à l'intérieur de cette salle.

[Texte]

I draw to your attention one example, Mr. Chairman. Last year there were changes to the unemployment insurance regime introduced and passed through second reading of the House and referred to a legislative committee; not a standing committee but a legislative committee.

Mr. Chairman, there had been over the preceding decade numerous studies of various alternatives to the UI system. There were studies of the current UI system. There was a royal commission on UI. There was study upon study upon study. Committees had gone back and forth across the country. Various parliamentary bodies had held hearings here there and everywhere. Nonetheless, Mr. Chairman, when that bill was referred to the committee from the House last year at second reading, it was deemed of sufficient importance to warrant cross-country public hearings on the bill; not on some regime of principles or proposals that may have preceded the bill, but on the bill itself.

I know, Mr. Chairman; I attended the hearings of that committee in Edmonton and they were very useful. Unfortunately, the overwhelming evidence presented at those hearings across the country, it turned out, were ignored by the committee and then the government. But that is the way the cookie crumbles in the parliamentary system.

The point I am trying to make is that the committee took the absolutely proper and correct step of undertaking nation-wide public hearings on that bill, despite all that had gone before. How much more important, Mr. Chairman, that such hearings be undertaken nation-wide on this equally important bill at very least. As the government members on the committee themselves have agreed, it is a bill of fundamental import to the Canadian taxation system.

I remember, Mr. Chairman, because I attended at the hearings of the committee in Edmonton when the standing committee was travelling across the country and debating the principles of what was then a proposal for a 9% GST. I remember that hearing, which lasted but one day. Such groups as the Alberta Federation of Labour, which had prepared a brief running to at least 40 pages—I recall it well; I read every one of the briefs presented at the committee that day—were allowed one-half hour, first of all, to present that brief and then to answer any questions the committee may have had on it.

Mr. Chairman, I am sure even you will agree that it was inadequate. Indeed, I would suggest that the entire day's proceedings were inadequate in that no one who appeared before the committee—with the possible exception of those who came simply to say they liked the

[Traduction]

J'attire votre attention sur un exemple, monsieur le président. L'an dernier, des changements au régime d'assurance-chômage ont été proposés et adoptés en seconde lecture à la Chambre puis déferés à un comité législatif; non pas un comité permanent, mais un comité législatif.

Monsieur le président, au cours des décennies antérieures, on avait fait de nombreuses études sur les solutions pouvant remplacer le régime d'assurance-chômage. Il y a eu des études du régime d'assurance-chômage actuel. Il y a eu une commission royale d'enquête sur l'assurance-chômage. Il y a eu étude après étude après étude. Des comités avaient sillonné tout le pays. Divers organismes parlementaires avaient tenu des séances un peu partout. Pourtant, monsieur le président, lorsque ce projet de loi a été confié par la Chambre au Comité à l'étape de la deuxième lecture, l'an dernier, on a jugé qu'il était suffisamment important pour justifier des audiences publiques dans tout le pays; non pas au sujet d'une série de principes ou de propositions préparatoires au projet de loi, mais au sujet du projet de loi lui-même.

Je parle en connaissance de cause, monsieur le président; j'ai assisté aux séances tenues par ce Comité à Edmonton et ces séances ont été très utiles. Malheureusement, en fin de compte, le Comité puis le gouvernement n'ont pas tenu compte de la plus grande partie des témoignages présentés à ces audiences à travers le pays. Mais c'est ainsi que les choses se passent dans le système parlementaire.

L'idée que je veux exprimer, c'est que le Comité a adopté la mesure tout à fait correcte, la mesure qui convenait, soit celle d'entreprendre des audiences publiques dans tout le pays au sujet de ce projet de loi, malgré tout ce qui s'était déjà passé auparavant. Il est encore plus important, monsieur le président, que de telles audiences aient lieu dans tout le pays au sujet de ce projet de loi, qui est au moins aussi important que l'autre. Comme en sont convenus eux-mêmes les députés du parti gouvernemental qui sont membres du Comité, ils s'agit d'un projet de loi qui est d'une importance fondamentale pour le régime fiscal canadien.

Monsieur le président, j'ai assisté aux séances que le Comité permanent a tenues à Edmonton dans son périple à travers le pays pour discuter des principes de la proposition portant alors sur une TPS de 9 p. 100. Je me souviens de cette audience, qui a duré une seule journée. Je me souviens bien, par exemple, de l'Alberta Federation of Labour qui avait préparé un mémoire d'au moins quarante pages. Je m'en souviens bien, car j'ai lu chacun des mémoires soumis au Comité cette journée-là. Or on a accordé une demi-heure à ces groupes pour lire leur mémoire et répondre aux questions des membres du Comité.

Monsieur le président, vous admettez vous-mêmes, j'en suis sûr, que cela n'était pas suffisant. Il ne suffisait même pas d'une journée, selon moi, puisque aucun de ceux qui ont témoigné devant le Comité—à l'exception, peut-être de ceux qui sont venus dire qu'ils aimaient la

[Text]

GST but it should not apply to us—was granted a period of time sufficient, first of all, to present their multitudinous concerns with regard to what was then a matter of principle and, secondly, to answer in any reasonable detail the thoughtful questions that occasionally were put to them by the members of the committee.

If this experience was duplicated in every centre to which the committee went, then I do not think it reasonable even to claim that there has yet been held, on the bill or any other aspect of the proposal, an adequate set of public hearings. Mr. Chairman, here you have yet another what I consider to be unassailable reason for undertaking a thorough set of nation-wide public hearings on the bill and its contents.

• 1720

I remember at that same Edmonton hearing, Mr. Chairman, toward the end of the day, as you will recall, several people arrived in the morning asking to appear before the committee. They had received word that the committee was going to be in town for three days at most, so they scrambled to put together some sort of presentation. In three instances and to your credit, Mr. Chairman, you created extra time in those brief pockets available to hear them.

I remember one such presentation where a lone gentleman, towards the end of day, stood before the committee and was reduced to incoherent blubbling. The man was reduced to tears at the thought of what the GST was going to do to him and his family. That was one of the most remarkable experiences I have had since being elected to the—

Mr. Soetens: Forget about the GST; you are out of line.

Mr. Harvey: Mr. Chairman, you might speak to your members opposite, who apparently do not either believe this or understand its impact. You might convey to them the impact that sad gentleman had on you.

The Chairman: He sure did. It is really unfortunate when people destroy poor people like that by giving them misrepresentations as to a measure. It really makes me sad, the way members of the opposition carried on.

Mr. Harvey: In that case, Mr. Chairman, it can be deemed a matter of reasonable Christian charity to appear before such people and set their minds at ease, which you could do, in the context of nation-wide public hearings.

I remember as well at that Edmonton hearing the gentleman from the Sherwood Park Chamber of

[Translation]

TPS mais qu'ils ne voulaient pas la voir s'appliquer à eux—ne s'est vu accorder suffisamment de temps d'abord pour formuler leurs nombreuses réserves sur ce qui n'était encore qu'une question de principe et, deuxièmement, pour répondre d'une manière raisonnablement détaillée aux questions réfléchies qui leur étaient posées de temps à autre par les membres du Comité.

Si cette expérience a été répétée à chacun des endroits où le Comité s'est rendu, il n'est pas raisonnable, selon moi, de prétendre qu'il y ait eu à ce jour une série suffisante d'audiences publiques sur le projet de loi ou sur quelque autre aspect de la proposition. Monsieur le président, c'est encore une autre raison que je considère irréfutable d'entreprendre une série complète d'audiences publiques d'un bout à l'autre du pays sur le projet de loi et son contenu.

Je me souviens de la fin de cette journée de l'audience d'Edmonton, monsieur le président. Vous vous en souvenez sans doute vous aussi, plusieurs personnes s'étaient présentées le matin pour demander à témoigner devant le comité. On leur avait dit que le comité allait être en ville durant trois jours tout au plus. Ces personnes s'étaient donc hâtées de préparer un mémoire. Dans trois cas, et c'est tout à votre honneur, monsieur le président, vous avez pu trouver le temps, malgré l'horaire serré, pour que nous puissions les entendre.

Je me souviens du cas d'un homme qui, vers la fin de la journée, s'est avancé tout seul devant le comité et en était réduit à des balbutiements incohérents. Cet homme pleurait à la pensée de ce que la TPS allait avoir comme effets sur lui-même et sur sa famille. C'est une des expériences les plus remarquables que j'ai eues depuis mon élection.

M. Soetens: Laissez tomber la TPS; vous êtes à côté de la question.

M. Harvey: Monsieur le président, vous devriez peut-être dire un mot à vos collègues de l'autre côté qui, semble-t-il, ou bien n'en croient rien ou n'ont pas compris l'impact de cette mesure. Vous pourriez peut-être leur dire ce que vous avez ressenti en entendant le témoignage bouleversant de cet homme.

Le président: J'étais effectivement bouleversé. C'est vraiment malheureux que des gens accablent des pauvres gens comme ceux-là en déformant les faits quant à une mesure qui les touche. Je suis vraiment attristé en voyant la manière dont les membres de l'opposition se sont comportés.

M. Harvey: Dans ce cas, monsieur le président, ce serait sans doute un bel acte de charité chrétienne de se présenter devant ces gens là et de les rassurer, ce que vous pourriez faire au cours d'audiences publiques tenues à travers le pays.

Je me souviens aussi que, lors de cette audience d'Edmonton, un représentant de la Chambre de

[Texte]

Commerce—not the Edmonton Chamber of Commerce, but the Sherwood Park Chamber of Commerce—who again was slotted into one of those wee windows of opportunity made available, and who had just enough time to say no damn way.

That was when they were still dealing with a 9% GST. That was when they were dealing without any of the details to be found in this bill, this voluminousness bill, this bill that consists of little but detail. Imagine what they could tell you now, Mr. Chairman. Imagine what they could tell the members of this committee, given sufficient time and sufficient notice to prepare a sufficient brief, detailing exactly how it is that the provisions of this bill—not its principle—will make their lives hell.

In dealing with the question of whether or not to travel, I think it prudent as well that we deal with the question of the cost of travel, because I can see committee members objecting on the bases of cost.

In this regard, I was wondering if I could start this section of my remarks with a question either to the clerk of the committee or perhaps to the Chair himself. Could anyone tell me the cost of the standing committee's travels in the round of hearings it did on the technical paper?

The Clerk of the Committee: I do not have the information here.

Mr. Harvey: Ballpark?

The Chairman: She can give it to you later.

Mr. Harvey: Can you give a rough estimate?

The Clerk: I prefer not to.

The Chairman: She will give you the answers later. She has it in her records.

Mr. Harvey: Was it under \$2 million? I note it for the record that they laugh. The suggestion that it could even approach \$2 million is laughable.

Mr. Dorin: I do not think it was \$200,000.

Mr. Harvey: Perhaps we could cut back just a bit on the press run of these pamphlets, these propaganda brochures, these attempts by the government to justify this noxious and absurd proposal. If you were to cut back on that run just a bit, just a factor of 2/14, 1/7 of the cost of this propaganda, you would have the money to mount the nation-wide public hearings on the bill that the people of Canada are demanding.

So let us hear, Mr. Chairman, no question of. . . For a moment I yield the floor to my colleague.

[Traduction]

commerce de Sherwood Park—non pas de la Chambre de commerce d'Edmonton, mais bien de Sherwood Park—s'était vu accorder un des rares moments devenus disponibles; il avait tout juste en le temps de dire qu'il ne voulait absolument pas de la mesure envisagée.

Il était toujours question, à ce moment là, d'une TPS de 9 p. 100. On ne connaissait encore aucun des détails qui se trouvent dans ce projet de loi, ce projet de loi volumineux, ce projet de loi qui contient à peu près uniquement des détails. Imaginez un peu ce que ces gens là pourraient vous dire maintenant, monsieur le président. Imaginez un peu ce qu'ils pourraient dire aux membres du comité, s'ils avaient suffisamment de temps, s'ils étaient avertis suffisamment d'avance pour pouvoir préparer les mémoires voulus, où il serait dit de quelle manière précise les dispositions de ce projet de loi—et non plus seulement des principes—vont faire de leur vie un enfer.

En nous demandant si nous devons voyager ou non, il est prudent de nous pencher aussi sur la question du coût, car certains membres du comité pourraient s'opposer à ce projet de voyage à cause du coût.

À cet égard, j'aimerais d'abord poser une question à la greffière ou peut être même au président. Qui peut me dire combien ont coûté les voyages du comité permanent lors des audiences portant sur le document technique?

La greffière du comité: Je ne possède pas ici ce renseignement.

M. Harvey: En gros?

Le président: Elle pourra vous le communiquer plus tard.

M. Harvey: Pouvez-vous nous fournir une estimation approximative?

La greffière: Je préfère ne pas le faire.

Le président: Elle vous fournira ces réponses plus tard. Elle possède ce renseignement dans ses dossiers.

M. Harvey: Est-ce que c'est moins de 2 millions de dollars? Je veux verser au dossier qu'on a ri. C'est risible de penser que cela pourrait s'approcher de 2 millions de dollars.

M. Dorin: Je pense que c'est moins de 200,000\$.

M. Harvey: Peut être suffirait-il de publier un peu moins de ces dépliants, de ces brochures de propagande, de ces tentatives, de la part du gouvernement, de justifier cette proposition nuisible et absurde. Si l'on en imprimait un tout petit peu moins, par un facteur de 2/14 seulement, c'est-à-dire 1/7 du coût de cette propagande, on aurait suffisamment d'argent pour financer les audiences publiques que les citoyens canadiens exigent de voir organiser dans tout le pays au sujet du projet de loi.

Par conséquent, monsieur le président, qu'il ne soit donc plus question de. . . Je cède pour l'instant la parole à mon collègue.

[Text]

Mr. Rodriguez: I get the distinct impression that the Conservative members on the other side think this is a big joke. I I have watched your performance.

Mr. Dorin: We have watched yours.

Mr. Rodriguez: I am deeply hurt by the jocular manner and the very off-hand manner in which you have treated us.

• 1725

We have asked for travel. It was not Rodriguez, it was not Barrett, it was not any of my colleagues who said that this tax was going to gouge and screw Canadians. We did not say that. It was you, Mr. Chairman. It was you who called this tax the "gouge and screw tax," the GST. We did not give it that appellation. It was you said that this tax was going to gouge and screw Canadians. And you are supposed to be an informed member of the finance committee, its leader, and you said it.

Big headlines appeared during the election campaign. I think it was about three weeks before election day when you, Mr. Chairman, made the great statement that if Canadians knew what the bonanza was that the government was going to take on this goods and services tax they would really scream. You let the cat out of the bag.

That is why your popularity in the polls is down to 22% and that is where you are going to stay, brother.

I want to say to you, Mr. Chairman, it was you who took the cat out of the bag during the election campaign.

The Chairman: I made the matter an election issue.

Mr. Rodriguez: No, you raised it. You brought it up. I know what happened. The phone lines were busy from Baie Comeau to Mississauga South. I am sure you were told to keep your mouth shut about the GST. I am sure, Mr. Chairman, that if you were to be honest you would tell me that big Brian came down on you, bang, just like that, because he is famous for saying that: bang, you have it. That is what he has done to his Cabinet ministers. At least that is what he told *Macleans*.

The Chairman: The people of the country did express their views in favour of the tax.

Mr. Sobeski: On a point of order, I would just like to inform the member from Nickle Belt that his colleague in the corner has fallen asleep.

Mr. Harvey: On the same point of order, in all honesty I confess that I think it was probably my remarks.

Mr. Rodriguez: My colleague in the corner has always been known as a very thoughtful and a very insightful person, and he does that with his eyes closed. I know there are some of you who are cruel enough to suggest that he is not all with us, and that is very cruel.

Mr. Sobeski: I apologize.

[Translation]

M. Rodriguez: J'ai nettement l'impression que, aux yeux des membres conservateurs du comité, tout cela n'est qu'une vaste blague. J'ai observé votre comportement.

M. Dorin: Nous avons observé le vôtre.

M. Rodriguez: Je suis profondément vexé par la manière moqueuse et très peu sérieuse dont vous nous avez traités.

Nous avons demandé de voyager. Ce n'est pas Rodriguez, ce n'est pas Barrett, ce n'est aucun de mes collègues qui a dit que cette taxe allait pressurer et plumer les Canadiens. Ce n'est pas nous qui avons dit cela. C'est vous, monsieur le président. C'est vous qui avez employé ce langage pour décrire cette taxe, la TPS. C'est vous-même qui l'avez dit. Vous êtes censé être un membre renseigné du comité des finances, le président de ce comité et vous l'avez dit.

Je me souviens des manchettes qu'on a pu lire au cours de la campagne électorale. Environ trois semaines avant le jour des élections, c'est vous, monsieur le président, qui avez fait cette déclaration importante: si les Canadiens savaient qu'elles sont les recettes que le gouvernement va tirer de cette taxe sur les produits et services, ils crieraient au meurtre. Vous avez vendu la mèche.

C'est pourquoi votre popularité dans les sondages est tombée à 22 p. 100 et que vous allez y rester, mes amis.

C'est à vous que je m'adresse, monsieur le président: c'est vous qui avez vendu la mèche au cours de la campagne électorale.

Le président: J'en ai fait un enjeu électoral.

M. Rodriguez: Non, c'est vous qui avez soulevé la question. Je sais ce qui s'est passé. Les lignes téléphoniques n'ont pas dérougi entre Baie Comeau et Mississauga-Sud. On vous a dit, j'en suis sûr, de vous taire au sujet de la TPS. Si vous vouliez être franc, monsieur le président, vous nous diriez que le grand Brian a foncé sur vous en criant: pan, t'es mort. C'est une de ses spécialités de dire: pan, t'es mort. C'est ce qu'il a fait aux ministres de son Cabinet. C'est du moins ce qu'il a confié au *Macleans*.

Le président: La population du pays a exprimé ses vues en faveur de la taxe.

M. Sobeski: J'invoque le Règlement pour faire savoir au député de Nickle Belt que son collègue vient de tomber endormi là-bas.

M. Harvey: J'invoque aussi le Règlement pour dire bien candidelement que c'est sans doute l'effet de mon intervention.

M. Rodriguez: Mon collègue là-bas a toujours été connu comme un homme très réfléchi, un homme qui pense, et il le fait les yeux fermés. Je sais que d'aucuns parmi vous sont assez cruels pour insinuer croire qu'il ne nous suit pas tout à fait. C'est très cruel.

M. Sobeski: Je m'excuse.

[Texte]

Mr. Rodriguez: I accept the apology, and I am sure he does too.

Mr. Chairman, I say to you it was not the opposition, it was not the NDP who suggested the real thrust of this tax.

I look at some of the witnesses who did appear before the committee when they studied the technical paper, and I do not see ordinary Joe Citizen here. I see the Air Transport Association of Canada; I see the Alberta Cattle Commission; I see the Alberta Law Foundation, and the Alberta Weekly Newspaper Association. I see the Canadian Homebuilders Association, but I do not see the individuals. I do not see ordinary individuals who had that opportunity.

I recall, when I was down in Prince Edward Island it was almost up to the time the committee arrived at the hotel and the Prince Edward Island Association for the Disabled had not even been given the assurance that they would appear. Listen, brother, that is not the way you treat people. You do not at the last minute decide to hear them, but you were really not interested.

Mr. Soetens: Are you suggesting that we should have turned them down?

Mr. Rodriguez: But you were not really interested. You were really interested in getting on to the next stop, which was Fredericton, or wherever else you were in a hurry to get to.

That is not the way you treat them. When I went down to Fredericton the groups who had applied to be heard had not received confirmation that they had been accepted as witnesses before the committee. That is not the way you treat people. You had plenty of time to make those arrangements, but a lot of them never got heard. I will not sit here and see that scenario repeated.

What we have proposed is not radical. How much does it cost, you say. Somebody asked what would we pay out of our budgets for research. Well, you did not think about that when you took the whole bloody committee down under. I am sure that cost at least \$250,000 to \$300,000. I am sure that cost big bucks.

• 1730

The Chairman: It costs more money to go to Yellowknife than to go there.

Mr. Rodriguez: I do not know. What did it cost to bring up this former Minister of Finance from New Zealand, Roger Douglas, so he could tout the great success of their GST? Nobody asked those questions.

This is the most important piece of tax legislation since I have been around the House of Commons, 13 years. I have not seen anything as important as this. It is invasive. It is pervasive. We have never taxed services before. This is the first time.

[Traduction]

M. Rodriguez: J'accepte vos excuses et je suis sûr qu'il les accepte aussi.

Monsieur le président, je vous dis que ce n'est pas l'opposition, que ce n'est pas le NPD qui a fait connaître la vraie nature de cette taxe.

J'examine la liste des témoins qui ont comparu devant le comité lorsque celui-ci étudiait le document technique et je n'y retrouve pas les citoyens ordinaires. J'y vois l'*Air Transport Association of Canada*, l'*Alberta Cattle Commission*, l'*Alberta Law Foundation* et l'*Alberta Weekly Newspaper Association*. J'y vois l'Association canadienne des constructeurs d'habitations, mais je n'y vois pas de particuliers. Je n'y retrouve pas de citoyens ordinaires qui auraient pu avoir cette occasion.

Je me souviens que, à l'Île-du-Prince-Édouard, les membres du comité étaient déjà presque rendus à l'hôtel et la *Prince Edward Island Association for the Disabled* n'était même pas encore certaine qu'elle allait témoigner. Écoutez, mes amis, ce n'est pas ainsi qu'on traite les gens. Ce n'est pas à la dernière minute qu'on décide de les entendre; mais vous n'étiez vraiment pas intéressés.

M. Soetens: Voulez-vous dire que nous aurions dû refuser de les entendre?

M. Rodriguez: Mais vous n'étiez vraiment pas intéressés. Ce qui vous intéressait vraiment, c'était d'arriver à la prochaine étape, c'est-à-dire Fredericton ou ailleurs, où vous étiez pressés de vous rendre.

Ce n'est pas ainsi qu'on traite les gens. Quand je suis arrivé à Fredericton, les groupes qui avaient demandé à être entendus n'avaient pas encore en confirmation que le comité accepterait d'entendre leur témoignage. Ce n'est pas ainsi qu'on traite les gens. Vous disposiez de tout le temps qu'il fallait pour organiser cela, mais beaucoup n'ont jamais été entendus. Je ne resterai pas ici les bras croisés à attendre que ce scénario se répète.

Ce que nous avons proposé n'a rien de radical. Combien cela coûte-t-il, dites-vous? Quelqu'un a proposé que nous payions ces frais-là à même nos budgets de recherche. Mais vous n'avez pas songé à cela lorsque vous avez transporté tout le comité aux antipodes. Cela a coûté au moins 250,000\$ à 300,000\$, j'en suis sûr. Cela a certainement coûté très cher.

Le président: C'est plus cher d'aller à Yellowknife que de se rendre là-bas.

M. Rodriguez: Je ne sais pas. Qu'est-ce que cela a coûté de faire venir cet ancien ministre des finances de la Nouvelle-Zélande, Roger Douglas, pour qu'il vienne nous parler du grand succès de la TPS néo-zélandaise? Personne n'a posé ces questions-là.

Nous avons affaire à la mesure fiscale la plus importante que j'aie vu depuis que je suis député, c'est-à-dire depuis 13 ans. Elle envahit tout. Elle porte sur tout. Nous n'avons jamais taxé les services auparavant. C'est la première fois.

[Text]

I think people, ordinary Canadians, have a right to express that opinion to their Members of Parliament. We ought not to be shutting off that debate. I honestly and frankly feel we are not serving the best interests of Canadians by doing that. It might even improve the government's standing in the polls. God knows they are down at the bottom of the barrel now, and falling. Is it that you have a death-wish? Is there some Freudian death-wish to commit suicide? Is it that it is not important, or are you prepared to go into the wilderness for the next 25 years?

I want to tell you, I have never, not even on the Free Trade Agreement, had the grassroots response on any issue as on the GST. Just on the guy owning the bowling alley in my riding and getting cards signed by people who frequent the bowling alley, seniors who are going around door to door and getting signatures on petitions—

The Chairman: Is the committee ready for the question?

Mr. Rodriguez: No.

The Chairman: Then the meeting is adjourned.

Thursday, February 15, 1990

• 0929

Mr. Dorin (Edmonton Northwest): Mr. Chairman.

The Chairman: Yes?

Mr. Dorin: I move that we proceed to orders of the day.

The Chairman: All right.

Mr. Rodriguez (Nickel Belt): Mr. Chairman. . .

The Chairman: A motion of moving to orders of the day is not debatable.

Mr. Rodriguez: Mr. Chairman, no.

The Chairman: All those in favour of moving to orders of the day.

Mr. Rodriguez: No, we are not going to do that.

Some hon. members: Agreed.

The Chairman: All those opposed.

Mr. Rodriguez: I will tell you right now—

The Chairman: Carried.

Mr. Rodriguez: —you are not going to do that.

The Chairman: We are moving to orders of the day.

Mr. Rodriguez: No, you are not going to do that.

The Chairman: We move to orders of the day, not debatable.

[Translation]

À mon avis, les gens ordinaires, les Canadiens ordinaires ont le droit de communiquer cette opinion à leur député. Nous ne devrions pas clore ce débat. Je le dis en toute honnêteté et en toute franchise, ce n'est pas ainsi que nous allons servir les meilleurs intérêts des Canadiens. En poursuivant le débat, on améliorerait peut-être même la popularité du gouvernement dans les sondages. Dieu sait qu'il est déjà au fond du baril. Et il continue pourtant de descendre. S'agit-il du désir de la mort? Êtes-vous les victimes d'une tendance suicidaire freudienne? Ce n'est pas important pour vous de vous exposer à être écartés du pouvoir durant les 25 prochaines années?

Je vous le dis: jamais, pas même au sujet de l'Accord de libre-échange, la réaction de la base n'a été aussi vive qu'au sujet de la TPS. Le propriétaire de la salle de quilles, dans ma circonscription, fait signer des cartes par ses clients; des personnes âgées circulent de porte à porte pour faire signer des pétitions. . .

Le président: Le comité est-il prêt passer au vote?

M. Rodriguez: Non.

Le président: Dans ce cas, la séance est levée.

Le jeudi 15 février 1990

M. Dorin (Edmonton-Nord-Ouest): Monsieur le président.

Le président: Oui?

M. Dorin: Je propose que nous passions à l'ordre du jour.

Le président: D'accord.

M. Rodriguez (Nickel Belt): Monsieur le président. . .

Le président: Une motion destinée à passer à l'ordre du jour ne peut pas faire l'objet d'un débat.

M. Rodriguez: Monsieur le président, non.

Le président: Tous ceux qui sont en faveur de passer à l'ordre du jour.

M. Rodriguez: Non, ce n'est pas ainsi que ça va se passer.

Des voix: D'accord.

Le président: Ceux qui sont contre.

M. Rodriguez: Je vais vous dire tout de suite. . .

Le président: Adopté.

M. Rodriguez: . . . je ne vous permettrai pas.

Le président: Nous passons à l'ordre du jour.

M. Rodriguez: Non, ce n'est pas ainsi que ça va se passer.

Le président: Nous passons à l'ordre du jour, et il n'y a pas de débat sur cette question.

[Texte]

Mr. Rodriguez: I am telling you, you are not going to do that. Right now, I am telling you this committee will not proceed as long as you try that kind of tactic. I have done it once before, and damn if I will do it again! You will not proceed! I will tell you that right now! You are not proceeding!

The Chairman: Our witnesses today—

Mr. Rodriguez: You are not proceeding! You are not proceeding! You are not proceeding!

• 0930

The Chairman: Our witnesses today—

Mr. Rodriguez: You are not proceeding! I don't care what witnesses you have.

The Chairman: Our witnesses today are—

Mr. Rodriguez: You will find that I can keep this up for two hours. You will not proceed. You will not try to hijack this committee. No, sir, you are not going to do that, I am going to tell you right now.

An hon. member: Take your pills, John. You are going to have another heart attack if you are not careful.

The Chairman: I will have an officer remove this man from the room.

Mr. Rodriguez: You get whatever officer you want. You are not going to do that, I will tell you right now. You may as well tell these guys to take a hike, because we are not proceeding. You have not seen anything yet.

Mr. Barrett (Esquimalt—Juan de Fuca): You have no right, Mr. Chairman, to remove anyone from this committee.

Mr. Rodriguez: That is right. You are not going to remove anybody.

Mr. Barrett: You can refer back to the House.

Mr. Rodriguez: You are not going to proceed today, I am telling you that right now.

Mr. Barrett: If you think, Mr. Chairman, you can kick someone off this committee without referring back to the House—

The Chairman: I am not asking you to get kicked off the committee, but you are disturbing the meeting.

Mr. Barrett: You have a motion before you. You put a motion on the floor of the House before you kick someone off a committee.

Mr. Rodriguez: That is right, and I am going to ask the clerk of the committee to check on this matter of moving to orders of the day. In this committee there are no orders of the day. That is it.

Mr. Barrett: Mr. Chairman, on a point of order—

[Traduction]

M. Rodriguez: Je vous le dis, ça ne va pas se passer ainsi. Je vous le dis tout de suite, le Comité ne va pas délibérer tant que vous allez recourir à des tactiques de ce genre. Je l'ai déjà fait et je vous jure que je vais le refaire! Vous n'allez pas délibérer! Je vous le dis tout de suite! Vous n'allez pas délibérer!

Le président: Les témoins d'aujourd'hui. . .

M. Rodriguez: Il n'y aura pas de délibérations! Il n'y aura pas de délibérations! Il n'y aura pas de délibérations!

Le président: Les témoins d'aujourd'hui. . .

M. Rodriguez: Je ne vous laisserai pas faire! Peu m'importent les témoins que vous pouvez avoir.

Le président: Les témoins d'aujourd'hui sont. . .

M. Rodriguez: Je vous le garantis, je peux continuer pendant deux heures. Vous n'irez pas plus loin. Vous n'allez pas vous approprier le Comité. Non monsieur, ce n'est pas comme cela que ça va se passer, je vous le dis tout de suite.

Une voix: Prenez vos médicaments, John, sinon vous allez faire une autre crise cardiaque.

Le président: Je vais faire venir un agent pour qu'il emmène cet homme.

M. Rodriguez: Vous pouvez faire venir qui vous voulez. Je ne vous laisserai pas faire, je vous le dis tout de suite. Vous pouvez toujours dire à ceux-là d'aller se rhabiller parce qu'il n'y aura pas de délibérations. Vous n'avez encore rien vu.

M. Barrett (Esquimalt—Juan de Fuca): Monsieur le président, vous n'avez aucun droit d'exclure quiconque du Comité.

M. Rodriguez: C'est vrai. Vous n'allez pas exclure qui que ce soit.

M. Barrett: Informez-vous à la Chambre.

M. Rodriguez: Il n'y aura pas de délibérations aujourd'hui, je vous le certifie.

M. Barrett: Si vous pensez, monsieur le président, que vous pouvez balancer quelqu'un du Comité sans obtenir l'avis de la Chambre. . .

Le président: Je n'essaie pas de vous balancer du Comité, mais vous troublez la séance.

M. Barrett: Vous êtes déjà saisi d'une motion. Il faut une motion en Chambre pour exclure quelqu'un d'un comité.

M. Rodriguez: C'est vrai, et je vais demander au greffier de se renseigner au sujet de la motion à propos de l'ordre du jour. Il n'y a pas d'ordre du jour dans notre Comité. C'est tout.

M. Barrett: Monsieur le président, j'invoque le Règlement. . .

[Text]

Mr. Rodriguez: You are not proceeding.

The Chairman: We are resuming debate—

Mr. Rodriguez: No, sir!

The Chairman: Shall clause 1 carry? Carried.

Mr. Rodriguez: I do not care what you do.

The Chairman: Shall clause 2 carry? Carried.

Mr. Rodriguez: No!

The Chairman: Shall clause 3 carry? Carried.

Mr. Rodriguez: No!

The Chairman: All those in favour of clause 4. Carried.

Mr. Rodriguez: No!

The Chairman: Shall clause 5 pass? Carried.

Mr. Rodriguez: No!

The Chairman: All those in favour of clause 6. Carried.

Mr. Rodriguez: I am going to take this to the House.

The Chairman: Shall clause 7 carry? Carried.

Mr. Rodriguez: What a travesty!

The Chairman: All those in favour of clause 8 signify.

Mr. Rodriguez: No way! This is not—

The Chairman: All those in favour of clause 8. Carried.

Mr. Rodriguez: You are not going to do that. You are not going to do that.

The Chairman: All those in favour of clause 9. Carried.

Mr. Rodriguez: No, you are not.

The Chairman: Shall clause 10 carry? Carried.

Mr. Rodriguez: Blenkarn, this is a travesty!

The Chairman: All those in favour of clause 11. Carried.

Mr. Rodriguez: I want to tell you that the people of Canada are going to make you pay for this.

The Chairman: Shall clause 12 carry? All those in favour of clause 12.

Some hon. members: Carried.

Mr. Dorin: On clause 12.

The Chairman: Mr. Dorin. On clause 12 I have a suggestion that we have a discussion.

Mr. Rodriguez: No, we are not.

The Chairman: Would you like to discuss clause 12?

[Translation]

M. Rodriguez: Vous n'allez pas passer aux délibérations.

Le président: Nous reprenons le débat. . .

M. Rodriguez: Non monsieur!

Le président: L'article premier est-il adopté? Adopté.

M. Rodriguez: Peu m'importe ce que vous faites.

Le président: L'article 2 est-il adopté? Adopté.

M. Rodriguez: Non!

Le président: L'article 3 est-il adopté? Adopté.

M. Rodriguez: Non!

Le président: Tous ceux qui sont en faveur de l'article 4. Adopté.

M. Rodriguez: Non!

Le président: L'article 5 est-il adopté? Adopté.

M. Rodriguez: Non!

Le président: Tous ceux qui sont en faveur de l'article 6. Adopté.

M. Rodriguez: Je vais soumettre cette affaire à la Chambre.

Le président: L'article 7 est-il adopté? Adopté.

M. Rodriguez: Quelle farce!

Le président: Tous ceux qui sont en faveur de l'article 8, levez la main.

M. Rodriguez: Pas question. . . Il ne s'agit pas. . .

Le président: Tous ceux qui sont en faveur de l'article 8. Adopté.

M. Rodriguez: Ça ne se passera pas comme cela. Ça ne se passera pas comme cela.

Le président: Tous ceux qui sont en faveur de l'article 9. Adopté.

M. Rodriguez: Non, je ne vous permettrai pas.

Le président: L'article 10 est-il adopté? Adopté.

M. Rodriguez: Blenkarn, c'est une farce!

Le président: Tous ceux qui sont en faveur de l'article 11. Adopté.

M. Rodriguez: Je vous le garantis, la population du Canada va vous faire payer cela.

Le président: L'article 12 est-il adopté? Tous ceux qui sont en faveur de l'article 12.

Des voix: Adopté.

M. Dorin: En ce qui concerne l'article 12. . .

Le président: Monsieur Dorin. Il est suggéré de tenir une discussion sur l'article 12.

M. Rodriguez: Non, il n'y en aura pas.

Le président: Voulez-vous débattre l'article 12?

[Texte]

Mr. Rodriguez: No, we are not.

Mr. Dorin: No discussion. The NDP do not want any discussion.

Mr. Rodriguez: I want to tell you that we will not proceed. This whole process is illegal. What you have done is illegal—

The Chairman: It is not illegal at all, my friend.

Mr. Rodriguez: —and you will not proceed. I am not going to sit here quietly and let you do that.

The Chairman: Might I suggest that we adjourn clause 12.

Mr. Rodriguez: I do not give a hoot what you want to do with clause 12.

Mr. Barrett: Mr. Chairman, we will not go on.

The Chairman: Shall clause 13 carry?

Some hon. members: Carried.

The Chairman: Shall clause 14 carry?

Mr. Rodriguez: I want to tell you that what you are doing is totally illegal.

The Chairman: Shall clause 14 carry?

Some hon. members: Carried.

The Chairman: Shall clause 15 carry? Carried.

Mr. Rodriguez: No! This whole process is illegal.

The Chairman: Shall clause 16 carry?

Mr. Barrett: Mr. Chairman, on a point of order. On a point of order, Mr. Chairman!

The Chairman: I heard a point of order.

Mr. Barrett: Thank you, Mr. Chairman. On a point of order, Mr. Chairman, you have taken this committee outside of the normal rules of procedure of this Chamber.

The Chairman: Talk about normal rules, fellows! You had your normal rules yesterday.

Mr. Barrett: Mr. Chairman, are you the chairman or are you a debater? Now, let us get this straight. I have the right to raise a point of order, and I have a right to raise a point of order without interruption from the Chair. There is a whole question here about the opportunity for members of the committee to participate. We do not have the opportunity to participate when the Chair comes in, smacks the gavel, says he will move to a motion, orders of the day, without hearing anyone else, and then calls all the clauses without even a chance for members to participate.

What is taking place here is a violation of the rules of this committee. My point of order is, Mr. Chairman, that before you proceed any further it is important that you retract the threat to call the Sergeant-at-Arms and suggest that you are threatening any member of this committee. That is totally out of order. To suggest that you are going to railroad this committee based on your agenda without

[Traduction]

M. Rodriguez: Non, il n'y en aura pas.

M. Dorin: Aucun débat. Le NPD ne veut aucun débat.

M. Rodriguez: J'insiste: il n'y aura pas de délibérations. Tout cela est irrégulier. Votre conduite est irrégulière. . .

Le président: Ce n'est pas irrégulier du tout, cher ami.

M. Rodriguez: . . . et vous n'irez pas plus loin. Je ne vais pas rester bien tranquille et vous laissez faire.

Le président: Puis-je suggérer de réserver l'article 12.

M. Rodriguez: Je me moque de ce que vous voulez faire de l'article 12.

M. Barrett: Monsieur le président, ça ne va pas continuer.

Le président: L'article 13 est-il adopté?

Des voix: Adopté.

Le président: L'article 14 est-il adopté?

M. Rodriguez: Je vous le dis, ce que vous faites est tout à fait inadmissible.

Le président: L'article 14 est-il adopté?

Des voix: Adopté.

Le président: L'article 15 est-il adopté? Adopté.

M. Rodriguez: Non! Tout cela est inadmissible.

Le président: L'article 16 est-il adopté?

M. Barrett: Monsieur le président, j'invoque le Règlement. Le Règlement, monsieur le président!

Le président: Quelqu'un en appelle au Règlement.

M. Barrett: Merci, monsieur le président. Monsieur le président, vous avez soustrait le Comité aux règles normales de la Chambre.

Le président: Parlons-en des règles normales, vous deux! Vous nous les avez imposées hier.

M. Barrett: Monsieur le président, vous êtes le président ou un participant? Qu'on s'entende bien: j'ai le droit d'invoquer le Règlement et j'ai le droit de le faire sans être interrompu par le président. Ce qui est en jeu ici, c'est la possibilité pour tous les membres du Comité de participer aux travaux. Cette possibilité nous est enlevée parce que le président s'installe, tape de son maillet, décrète que l'on va statuer sur une motion proposant de passer à l'ordre du jour, ne donne la parole à personne puis met aux voix les articles sans même donner la chance aux députés d'intervenir.

Nous sommes devant une violation des règles du Comité. Avant d'aller plus loin, monsieur le président, j'estime que vous devez retirer votre menace de faire venir le sergent d'armes et je vous invite à cesser d'adresser des menaces aux membres du Comité. C'est tout à fait inadmissible. Si vous pensez que vous allez pouvoir faire adopter le projet de loi à toute vapeur sans la

[Text]

parliamentary participation is totally out of order. Mr. Chairman, I do not think you have the right to proceed any further, and I move that this committee—

• 0935

The Chairman: You cannot make a motion.

Mr. Barrett: Why not? I can so.

The Chairman: We have gone to the orders of the day.

Mr. Barrett: Mr. Chairman, I can move a motion any time I want in this committee. You cannot sit there and make up the rules as you go along. Who the heck do you think you are?

The Chairman: You are out of order.

Mr. Barrett: I move that this committee rise, report progress, and ask leave to sit again. And that is certainly in order.

The Chairman: I am going to do something now that you may want to know. Under our particular organization of this committee—

Mr. Rodriguez: A point of order.

The Chairman: —I am entitled to suspend the meeting.

Mr. Rodriguez: A point of order.

The Chairman: So I am going to suspend the meeting to the call of the Chair this morning.

Mr. Barrett: Mr. Chairman, I made a motion.

Mr. Rodriguez: A point of order.

The Chairman: The meeting is suspended to the call of the Chair.

Mr. Barrett: You can suspend it all you want.

Mr. Rodriguez: This is not the last of it.

The Chairman: The meeting is suspended to the call of the Chair.

• 0938

• 0955

The Chairman: We are resuming consideration—

• 0956

Mr. Rodriguez: Question of privilege.

The Chairman: We are resuming the—

Mr. Rodriguez: Question of privilege.

The Chairman: I was trying to make an announcement before you do that.

[Translation]

participation des députés en n'en faisant qu'à votre tête. . . c'est tout à fait inadmissible. Monsieur le président, j'estime que vous n'avez pas le droit d'aller plus loin, et je propose que le Comité. . .

Le président: Vous n'avez pas le droit de déposer une motion.

M. Barrett: Pourquoi pas? Si, je peux.

Le président: Nous sommes passés à l'ordre du jour.

M. Barrett: Monsieur le président, je peux déposer une motion quand je veux au Comité. Vous n'avez pas le droit d'inventer les règles au fur et à mesure. Diable! Pour qui vous prenez-vous?

Le président: Vous êtes en contravention du Règlement.

M. Barrett: Je propose que la séance soit levée, que l'on fasse rapport de l'état de la question et que l'on demande le consentement nécessaire pour siéger à nouveau. Cela, c'est sûrement en conformité avec le Règlement.

Le président: Je vais maintenant faire quelque chose dont vous voudrez probablement être témoin. Le Comité est ainsi constitué que. . .

M. Rodriguez: J'invoque le Règlement.

Le président: . . . je suis autorisé à lever la séance.

M. Rodriguez: Le Règlement.

Le président: Je vais lever la séance jusqu'à convocation par le président plus tard ce matin.

M. Barrett: Monsieur le président, j'ai déposé une motion.

M. Rodriguez: J'ai invoqué le Règlement.

Le président: La séance est levée jusqu'à convocation par le président.

M. Barrett: Vous pouvez lever autant que vous voudrez.

M. Rodriguez: Ça n'en restera pas là.

Le président: La séance est levée jusqu'à convocation par le président.

Le président: Nous reprenons l'examen. . .

M. Rodriguez: Question de privilège.

Le président: Nous reprenons. . .

M. Rodriguez: Question de privilège.

Le président: J'essayais de faire une annonce avant que vous ne souleviez la question de privilège.

[Texte]

Mr. Rodriguez: You did not wait for Dorin.

The Chairman: I want to make a suggestion to you—

Mr. Rodriguez: He just seems to have been able to make a motion.

The Chairman: —that there are a lot of things going on around here today. It might be appropriate if we adjourned the meeting today.

I want to announce that I have scheduled witnesses for Monday afternoon and Monday evening in connection with problems in the bill. I am sure everyone would like to hear the witnesses.

Mr. Barrett: Mr. Chairman, on that point, I want to raise something.

The Chairman: I am delighted to raise some things with you, but in private if you would like.

Mr. Barrett: No, Mr. Chairman. I am a member of this committee and I want to raise a point of privilege and I have a right to raise that privilege here in committee, right now, and I want to raise that—

The Chairman: You have the right to do all sorts of things if the meeting is—

Mr. Barrett: And that is why—

The Chairman: —if the meeting is not adjourned, but the meeting is now adjourned.

[Traduction]

M. Rodriguez: Vous n'avez pas attendu Dorin.

Le président: Je veux vous faire une suggestion. . .

M. Rodriguez: On dirait qu'il a pu déposer sa motion.

Le président: . . . il se passe beaucoup de choses ici aujourd'hui et il serait peut-être bon de lever la séance.

Je vous informe que j'ai prévu la comparution de témoins lundi dans l'après-midi et dans la soirée pour discuter des difficultés soulevées par le projet de loi. Tous voudront sûrement entendre les témoins.

M. Barrett: Monsieur le président, sur ce point, je voudrais soulever une question.

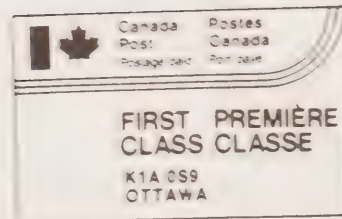
Le président: Je suis ravi que vous vouliez soulever des questions avec moi, mais en privé si vous le voulez bien.

M. Barrett: Non, monsieur le président. Je suis membre du Comité et je tiens à soulever une question de privilège. J'ai le droit de soulever la question de privilège ici même, maintenant, et je veux soulever la question de. . .

Le président: Vous avez le droit de soulever toutes sortes de questions si la séance. . .

M. Barrett: Et c'est la raison pour laquelle. . .

Le président: . . . si la séance est maintenue, mais la séance est maintenant levée.



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